The two hallmarks of the economic outlook remain in focus: slower growth and higher inflation. UK inflation hit a 30-year high. But that was surpassed in the US where it hit a 40-year high. While China’s latest lockdown is adding to supply chain stress, driving prices even higher, and contributing to jitters around the global recovery. So too is the war in Ukraine, as the latest forecasts from the World Bank suggest.

Slowing. UK economic growth slowed to a crawl of 0.1% in February, down from 0.8% the previous month. Two conflicting forces drove the minor gain; services grew by 0.2% MoM supported by consumer facing services, which grew by 0.7% following the easing of restrictions, while healthcare output declined sharply (-5.1% MoM) as testing and vaccination halved from January. Manufacturing contracted by 0.4%, and construction also fell by 0.1%, as bad weather disrupted activity. These challenges are set to be followed by more headwinds ahead, including further drops in healthcare output, higher taxes, soaring energy prices amidst broader cost-of-living pressures.

Pain point. UK inflation surged to 7.0% in March, from 6.2% in February, well above the Bank of England’s expectations of around 6% set out in February. The rise was driven by a jump in motor fuel inflation to 30.7%, from 22.3% in February. Food price inflation also rose as supermarkets passed on more of the recent surge in producer prices. Core inflation inched up as shortages drives goods prices higher. Services inflation also rose as the hospitality sector may have pushed through price rises ahead of changes to VAT. Will it last? Inflation is likely to leap to about 9.0% in April, as outlined in Bank of England Deputy Governor Jon Cunliffe’s latest speech, due to higher energy prices. Markets think a further rate increase in May is a certainty.

How low can you go? Soaring inflation is casting a big shadow over an otherwise buoyant labour market. A mere 3.8% of the workforce were unemployed in February, equalling the incredible low recorded on the eve of the pandemic. Prior to that, unemployment hadn’t been so low since the mid-1970s. Right now, there are as many unfilled job vacancies as people looking for work: 1.3m of them. So, unemployment may soon tick down yet further. Rising wage growth, up to 5.4% in the year to February, is enticing more people into work and bringing workers some respite from rising prices, though high inflation means that real pay is essentially flat. It may soon go lower too.

Still going up. Strength in the housing market for much of the last 18 months has been attributed to support from lower stamp duty and low interest rates. Both no longer apply yet the market remains hot with average price growth of 10.9% in the 12 months to February. Even in the worst performing region (London!) prices rose 8% YoY. Shifts in tastes from the pandemic are still evident. Prices in small towns and villages are climbing faster than big cities, but virtually everywhere is going up. And it’s starting to feed through to rental prices too. Private rents outside London went up 3.3%, adding another dimension to the squeeze on consumers.

Lending & spending! UK lenders intended to reduce secured lending to households in the three months to May by the greatest amount since the start of the pandemic, despite an expected rise in demand for mortgage lending, according to the latest Bank of England’s credit conditions survey. Credit availability is being restricted by higher interest rates. Further, demand for secured lending for house purchases rose slightly in Q1, lenders said. Likewise demand for unsecured lending such as credit cards is expected to rise in Q2, as has been seen in the early part of this year. Some of that might be down to the income squeeze, but many household balance sheets are in good shape, giving confidence around lending.

Mostly Downhill. Near real-time data indicates consumer spending is holding up as inflation rises, so far at least. Card spending showed a 2% increase in the first week of April from the previous week, although it was buttressed by the 6% increase in the road-fuel and other work-related purchases. The wholesale price of gas was roughly half compared to early March, which is some better news ahead of the next change in the energy tariff, but 356% higher compared to last year. Continued labour market tightness was reflected in a 2% weekly rise in online job advert volumes, with increases in 10 out of 12 regions and the energy sector posing biggest upswing of 9%. Business conditions survey showed that between early February and March, turnover increased by 0.6%, continuing the upward trend that’s been visible through the year to date.

Still the same. The ECB kept its main refinancing and deposit rates unchanged last week, as expected. The messaging too was little different from last month. There was no bringing forward of the ECB’s plans on ending its asset purchase or raising rates, as some had expected. The Ukraine conflict has led to higher inflation and elevated uncertainty, and in the Eurozone more so than most other regions. ECB President Lagarde said “downside risks to growth had increased substantially” and so with respect to monetary policy decisions the ECB will retain “optionality, graduality and flexibility”. In other words, driven by the data and evolving assessment of the outlook.

Eye-watering. Inflationary pressures around the world show little signs of abating. After reaching 7.9% in February, US inflation rose again last month, reaching 8.5%. The last time it was that high Reagan’s Presidency wasn’t a full year old! Just like the UK, it’s visible in energy, food and goods. With services inflation rising, too. The key question is whether there are any signs of it peaking. The answer is some, albeit tentative. Strip out volatile items like food and energy, and core inflation rose 0.3% on the month, the lowest since September, helped by the second straight monthly fall in used car prices. But again, just like the UK, inflation’s retreat will be a slow process.

- LinkedIn
- Email