Monetary policy was at the forefront last week as central banks across the world took a hawkish shift in their battle again inflation. We had the 5th Bank of England hike with no signs of stopping, a US Federal reserve rise of 75 bps – biggest in almost 3 decades – and the European Central Bank announced an end to stimulus measures and expected to raise rates next month.

"Up to eleven". In the 1984 spoof rockumentary, 'This is Spinal Tap', the heavy metal band's amplifier went up to 11. Last week the Bank of England's (BoE's) Monetary Policy Committee took its CPI forecasts to a new level, warning that inflation could hit 11% and beyond this year. Unfortunately, it is not spoofing. Unlike the Fed, the UK central bank continued its gradual approach raising Bank Rate by 0.25 ppts although three members voted for a 0.5 ppts rise. That marked the fifth increase in back-to-back meetings taking the benchmark rate to 1.25%. With no meeting in July, the BoE's band of policymakers will regroup with their next decision on 4 August.

Turning point? The UK labour market continues its tight course; however, we see early signs suggesting that could be on the turn? Unemployment rate edged up slightly to 3.8% in April from 3.7% the previous month mainly due to pick up in growth rate of the workforce which was 1.0% higher in April than 3 months earlier. Job vacancies rose to a new record of 1.3M however the rate of growth is slowing. Employment rate rose to 75.6% in the 3 months to April, up 0.2 ppts and most importantly economic inactivity rate fell by 0.1 ppts to 21.3% as more graduates enter the labour market this summer. On the other front, wage growth held up. Regular wage growth remained unchanged at 4.2% while there was a slight slowdown in pay (incl. bonuses) to 6.8% from 7.0% in March. In real terms, however, earnings are falling, suggesting that wage squeeze is here.

As good as it gets? Despite the upsurge in recessionary chatter, Northern Ireland's labour market continues to churn out positive headlines. The ILO unemployment rate in the three months to April stood at 2.6%, just north of Q1 2020's pre-pandemic level (2.5%) and the record low of 2.3% (Sep-Nov 2019). Both the HMRC payrolls data and the Quarterly Employer Survey (QES) posted record employee numbers for May and March 2022 respectively. Meanwhile there is still nothing of note on the redundancy front. From a recession watch perspective there is certainly 'nothing to see here' as far as the local labour market statistics are concerned.

All rise. Northern Ireland's indices of manufacturing, services and retail sales posted q/q growth of 0.2%, 0.7% and 2.6% respectively in Q1 2022. Significantly these rates of expansion outperformed the equivalent UK indices over this period. Unlike UK manufacturing, local manufacturers output is back above Q4 2019's pre-pandemic level (+3.9%). The NI Protocol is playing a role here particularly with food and drink producers. Output within this sub-sector in Q1 2022 was 11.7% above pre-pandemic levels. That's over four times the increase for UK food & drink producers. But one local sector that has failed to take-off is the manufacturing of Transport Equipment. Output remains almost half of its pre-Covid level due to the slump in the aerospace market.

Cash Back. The Treasury’s response to the ‘Rona’ resulted in one of the largest redistributions of income in UK peacetime history. Income flows from Government to households were extraordinary – £36bn in Q2 2020 alone – equivalent to >£400 a month to every household. Forced saving saw household deposits rocket by £127bn in 2020, a fair whack flowing into investment funds and pensions in 2021. Yep, some of this money was lent back to government (and firms). Larger firms tended to pay back their financial support, freeing dividend payments, which bounced back by 20% in 2021, after a 26% drop in 2020.

Power talk. There’s undeniable appeal to hard numbers when taking the temperature of the economy. But statistics are backward looking. It’s business insiders who are first to know when the mercury is rising. Faced with elevated staff turnover and acute ongoing recruitment difficulties, the Bank of England Agents reported in Q2 that companies’ pay settlements are running well above 2021 levels – now averaging over 5% – and continuing to climb. More firms are awarding one-off bonuses. Many are now considering offering mid-year pay top-ups. Unsurprising perhaps, given instances of bidding wars erupting to poach/keep staff and starting salaries jumping 10%. You heard it here first.

Temperature check. How are the businesses feeling? Perhaps not great. 46% have either inflation or energy prices as their top concern in July. Interestingly, 24% see no concerns, up from 21% previous month. Proportion of businesses facing supply chain constraints was fairly stable at 13% in May, with manufacturing, retail and hospitality worst affected. Labour crunch continued with 15% of the firms facing worker shortages in June, compared to 13% last month. Construction and hospitality among the hardest hit. Firms use of work from home remained high at 23%, with overhead reduction and employee well being quoted as the main motivations.

A bumpy ride. A mixed week for transport indicators highlighting a decline in ship visits and cargo tanker ship trips – decreasing by 2% and 4% – whilst daily UK flights and road traffic have seen an increase by 2% the week ending 9th of June. Could the summer heat wave be a contributing factor? Meanwhile, CHAPS data show consumer spending falling in the UK, with credit and debit card purchases decreasing in all spending categories – and visits to retail and recreational locations falling by 12%. It’s looking like consumers maybe feeling the pinch more than we realise during this week’s mini heatwave!

What gives? UK leaving the EU and the subsequent transition period, along with the impact of the pandemic, followed by the Russia-Ukraine war induced supply chain disruption, have caused high levels of volatility in trade statistics in the past 2 years. However, total exports of goods, excluding precious metals, increased by 7.4% (m/m) in April, driven by a 8.1% increase in exports to EU as the bloc continues to import substantial quantities of LNG. There was a simultaneous increase in total imports of goods, excluding precious metals, by 0.7%(m/m) in April 2022, because of a 4.2% rise in imports from EU countries. Are these early signs of a revival of EU-UK trade? We need to wait and see. In the meantime, UK is suffering its second largest trade deficit in April, largely driven by surge in value of imports and specifically fuel.

Catch-up. A decades-high inflation rate calls for a decades-high leap in interest rates. The US benchmark rate was hiked by a punchy 75bps last week, the biggest one-off rise since 1994. In recent months, the Fed has been accused of falling behind the curve, with its attempts to quash inflation falling short of what many viewed as necessary. This hike is a big stride toward catching up. And that seems to be far from the end of it. But here’s the tricky thing – the economy is showing signs of cooling. GDP fell in Q1 while the Atlanta Fed

GDP tracker is currently reading 0% for Q2. In other words, the US might be in a technical recession. Difficult territory indeed.

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