Central bankers are raising rates at the fastest pace since 1980s, with the Fed last week raising rates by 0.75 ppts. Will the Bank of England follow suit on Thursday? Members will need to navigate a tight trade-off between growth and inflation. Given the latter remains at eye-watering levels, a rate hike is very much on the cards. However, the question remains whether the BoE will stick to a gradual approach or will step up the pace of its tightening cycle following the lead of other central banks.

Gloomy and More Uncertain. This is how the International Monetary Fund described the global economic outlook in last week’s update. Several shocks have hit a world economy already weakened by the pandemic: higher-than-expected inflation triggering tighter financial conditions; a worse-than-anticipated slowdown in China; and further negative spillovers from the war in Ukraine. The global growth forecast is slashed from 6.1% last year to 3.2% in 2022, 0.4 ppts lower than in the April forecast. The UK 2022 growth forecast was also downgraded from 3.7% to 3.2%. And even bigger revision for 2023 — growth of 0.5% from a 1.2% estimate in April. Stagnation, effectively.

Squeezed. With the cost of living rising sharply, seeing UK households collectively save a bit less and borrow a bit more would be a logical outcome. The latest data suggests that’s happening. UK households squirreled away £1.9bn in June, that’s less than half the typical £5bn monthly build seen pre-Covid. Unsecured debt rose, although the stock remains some way below the pre-Covid peak (many took to paying down debt during Covid), suggesting we might see more borrowing ahead. Meanwhile, higher rates have put the squeeze on mortgage demand with mortgage approvals softening between May and June. A typical 75% loan-to-value mortgage came with an interest rate of 1.57% six months back. It’s now 2.88%!

Summer worry list. Forget the bestselling beach read, business leaders have more pressing things on their minds as holidays beckon. Only 21% are untroubled by business anxieties this August, a drop of 7ppts in just a few months. Blame inflation: ¼ are worried chiefly about input cost pressures. Another 1/5th point to spiralling energy prices as the No.1 cause for worry. Actions suggest firms are also concerned about staff wellbeing. In the past 3 months, 5% of large businesses (50+ staff) offered employees one-off cost of living payments and over 1/5th of them paid employees higher wages last month.

Sky-high. In the year ending 31st March 2021, the average home sold in England was 8.7 times the average annual disposable household income – the least affordable since records began in 1999. Affordability ratios in Wales and Scotland are 6 and 5.5, and beyond their peaks reached in 2007 and 2008, respectively. Affordability is the worst for the low-income households. An average priced home in the North East, the most affordable English region, would cost nearly 12 years of income for a low-income household compared with 40 years in London. With rising rates and prices steepening at a lightning pace, affordability is set to only worsen.

Welcome news. UK government gross debt came in at £2.3tn at the end of Q1, equivalent to 99.8% of GDP. While debt is lower than in Q1 last year by 4.2ppts, it is still reaching the levels unseen since the early 1960s. The UK debt is significantly above the EU average of 87.8% of GDP. While Greece (189%), Italy (153%) and Portugal (127%) have the highest debt in the block. Meanwhile the deficit has shrunk as pandemic-era spending has reduced and tax receipts have picked-up: government borrowing was 2.6% of GDP in Q1 vs. over 8.1% during the same period last year and 27% at the height of the pandemic. But concerns exist around Prime Ministerial contenders offering unfunded tax cuts and the effect this might have on UK borrowing.

The heat is on. We’re in a period of stability in both commercial activity and behaviour. Card spending fell slightly (by 2ppts), but this isn’t wholly unexpected as holidays/day trips probably boost cash spending. And job adverts rose by a modest 1%, indicating no further tightening of labour demand over supply. Yet price rises remain a worry. The share of firms voicing no concerns fell from nearly one-in-four, to one-in-five (24% to 21%). And, painfully, spending at the pumps rose by 14% in the week to 24th July, up 48% in a year. A summer of discontent may be brewing.

Recession risk rising. The US economy entered a technical recession in H1, as GDP fell by 0.9% in Q2, following a 1.6% drop in Q1. Although the market reaction to the release was limited, recession fears have grown. Four-decade-high inflation eroded growth in consumer spending while rising borrowing costs stymied businesses and housing, spurring a downturn in investment. On the other side of the pond, things look relatively upbeat as Eurozone GDP growth accelerated in Q2 to 0.7% (after 0.5% in Q1). But downward revisions are likely given the war in Ukraine and the ongoing gas crisis. Further, business surveys for July, suggest that GDP will fall sharply in Q3, raising the risk that the Eurozone may well slip into a recession by the end of the year.

Soaring. Growth was up for the Eurozone but so was inflation, hitting a new high of 8.9% YoY in July, up from 8.6% in June. The drivers? The usual suspects are closely interlinked with the Russia’s invasion of Ukraine: energy prices increased by 39.7% YoY (compared with 42% in June), and a 9.8% increase in food costs (up from 8.9% in June). Even stripping out these volatile components; core inflation edged higher by 0.3ppts, to 4.0%, while services inflation also accelerated, climbing to 3.7%, from 3.4% in June. The new print together with the stronger GDP growth will probably lead the European Central Bank to implement another interest rate hike in September, after the first interest rates increase since 2011 last month.