The estimates of where household energy bills are heading keep going up. £5k is the latest forecast come next year. An acute energy shock, to be sure. GDP data suggests the UK economy withstood the shock’s initial impacts better than expected over the spring. But those were the early days. The real test is yet to come.

Calm before the storm? UK GDP fell by a less than expected 0.1% in Q2. A decline was widely anticipated owing to the extra bank holiday for the Queen’s jubilee. Government spending lead the downturn with a 2.9% drop as Covid-19-related spending fell. Strip that out and the economy actually grew 0.5% over the quarter. Household spending fell as rising prices eroded real incomes. These were partly assuaged by a 0.6% gain in gross fixed investment as business investment rebounded 3.8%. An encouraging sign given the hoped-for recovery in this area. Within sectors, a decline in services offset gains in production and construction. Data and business surveys point to an economy struggling for momentum in the weeks since Q2 ended. And that’s before inflation bites as hard as it’s expected to!

Stasis. UK economic activity in the first week of August remained broadly stable, both in terms of consumption and business activity. We saw offsetting trends in consumption. CHAPS card spending increased by 4 ppts week-on-week, as did visits to parks, while UK seated diners dropped by 5ppts. All other mobility indicators remained largely unchanged. So too road traffic and UK daily flights. Also unchanged were total volumes of online job adverts, but down 5% from the same week last year, adding to a story of a labour market remaining well supported, but cooling. But that’s not translating into redundancies with the number of employers proposing layoffs remaining contained. Overall, UK activity is hanging in there, for now at least.

Turning a corner? US inflation was softer than expected in July with an unchanged reading in the price index from June. That marked the weakest reading since May 2020 and brought the annual rate down from its 40-year high of 9.1% to 8.5%. Lower petrol prices helped but the core CPI measure (excluding food and energy) also came in below expectations of 5.9% y/y. The producer price index also points to an easing of pipeline inflationary pressures. Cue market euphoria and a retreat of expectations on rate hikes. A 75bps rise next month is now a 50bps one. Will this be the week we look back where the tide started to turn on inflation in the US? It’s too early to tell. And the Fed won’t be ready to declare victory yet.

They’re passing all kinds of bills! But here’s one that hasn’t been tried. Its been described as Joe Biden’s biggest legislative victory to date. The US has passed a bill marking the single largest investment in tackling global warming in its history. A cool $369bn, in fact. It includes tax credits, rule changes and grants to reduce household electricity bills. Consumers may qualify for up to $10k in tax breaks and rebates should they decide to go on a green-tinged shopping spree, purchasing an electric vehicle, installing a solar panel and make other energy-efficient upgrades. All in it's expected to help reduce the country's emissions by 40% relative to 2005 levels by 2030, most of the way toward the goal of 50%.

Fill in the gaps. The US move might be a good template for the UK. Environmental Accounts show UK households are a bigger emitter of greenhouse gases than any industry sector, accounting for 26% of residence-based emissions. Just under half of these relate to travel. While emissions from that area have been trending up, they're little higher than what they were in 2007. Survey data reveals three quarters of adults report having made some or a lot of changes to their lifestyle to help tackle climate change. But information gaps abound. Almost a quarter of the public have never heard of an energy performance certificate (EPC). Of those, less than a third are aware the EPC provides recommendations on energy efficient improvements.

Finding Comfort. The recent Quality of Life results shows that we are continuing to thrive in our communities with 87% of adults agreeing that when they encounter a problem that there are people who would support them. The UK is also being more climate conscious and continuing our long-term trend since 2015 of reducing carbon emissions to 425 MtCO2e in 2021, only a slight increase on 2020's 405 MtCO2e figure in an era of reduced transport and production. On the flip side, our mental health is continuing its long-term decline with 22% of us reporting evidence of depression and anxiety, the highest since measurement began in 2009/10.

Feeling the heat. There are no signs of immediate relief for the challenges that have been mounting for businesses in recent months. Higher energy prices and inflation were reported as the main concerns for more than 25% of firms with 10 or more employees this month. 23% of these firms experienced higher hourly wages vs last month and 4% provided a oneoff cost of living payment. And all that wasn’t enough as one-third of firms continued to face labour shortages. Brexit also continued to take its toll with increased transportation costs and extra paperwork the main issues. National and global supply chain disruptions remained sizable, though with tentative signs of improvements.

Not over here. Hard to imagine an inflation figure that begins with a ‘2’, isn’t it? Well that remains the case in China. Prices rose 2.7%y/y in July, from 2.5% in June. While demand has been strong in the West, in China it has been cool, by their standards at least. Household spending is under pressure from Covid-19 while the authorities continue to jump on any outbreaks. There isn’t even much inflation up the pipeline. Producer prices rose 4.2%, down from 6.3% in June. Manufactured goods prices rose just 0.9%. The read across for us is the possibility of a dose of goods price deflation, even if mild, as the switch into services spend and cooler economic growth saps demand for goods. That would be welcome.