Last week’s showstopper was inflation which hit double digits for the first time in 40 years. Previously latent concerns are also coming to the fore, like a cooling labour market, zero productivity gains, and waning consumer confidence. Recent policy support will only temporarily assuage spending before an energy price cap increase in October renews stress.

Unrelenting. Double digit inflation is a phenomenon mainly confined to the 70’s & 80’s, as the UK was being convulsed by a political, social, and cultural counter-revolution. Cut to present and it is déjà vu as the nation finds itself in a tempest created by the fastest pace of inflation. Annual CPI inflation hit double digits for the first time since 1982, posting a whopping 10.1% in July (from 9.4% in June). The main driver? Food inflation which posted an eye-wateringly high 12.7% in July, and rising transport costs. But the nail in the coffin came from core inflation which accelerated again, to 6.2%, after temporarily dropping in June. These upside surprises could unanchor inflation expectations, mounting pressure on the BoE to ramp up rates tightening.

Pricey stuff. As with so much else, the price of housing is rising rapidly. Buoyed by strong tenant demand, the cost of renting rose at its fastest pace in over a decade in July (up 3.2% y/y). House prices are growing swiftly too: climbing 0.5%, or £1,500, in June alone (seasonally adjusted). That's only a slight slowdown from recent months. How long can house prices go on defying the nasty combination of the cost-of-living squeeze and spiralling mortgage rates? Remember, most sales completed in June were agreed in the spring, when energy bills and mortgage costs were at lower levels. A slowdown looks impending.

14-year high. Locally the year-on-year rise in residential property prices was just short of double-digits. The 9.6% y/y rise in Q2 2022 took the standardised house price to £169,000 – a 14-year high. Northern Ireland's residential property market has had a good run as far as price growth is concerned. Since the onset of the pandemic two-and-a-half years ago, prices have increased by more than 20%, that's double the rate for the previous two-and-a-half year period. Headwinds are mounting although it is not one-way traffic. Lack of supply of both new and second-hand stock is expected to exert upward pressure on prices in 2023 and beyond.

Past the peak. All this may suggest that labour market's recovery from covid has been one of the more reliable sources of good news this year. But as the outlook for demand darkens, we're likely to be past its peak already. There are still plenty of jobs, and employment rose by a healthy 160,000 in the last quarter. But firms haven't got quite as many unfilled roles as they had a few months ago, with vacancies edging down to 1.27 million. What does this mean for wages? Nominal growth of 5.1% would be a great rise for the average UK worker in normal times. But prices are rising far faster so the chances of pay catching up as the economy cools look poor. On top of that, productivity is stagnating.

Low tide. "Only when the tide goes out you see who has been swimming naked". That quote by the legendary investor Warren Buffet applies to the UK economy today albeit in a different context. Productivity is essential to improving living standards, but the UK's woeful performance has left it more exposed than elsewhere. Amid a cost-of-living crisis improving productivity – and by extension increasing wages – is vital. However, output per hour worked was unchanged between Q1 and Q2. Improvements in recent years have been modest. Stagnating productivity in high inflation environment may heighten labour market woes.

Dramatic tension. Come to think of it, it all feels a bit like the film Jaws. The shark is out there and we're afraid. We hear the "der da" vibe. But we're yet to see inflation's painful bite on either business activity or consumer behaviour. Labour demand seems steady, with online job postings flat. So too is eating out, while road and air travel posted a marginal decline of 1% on the previous week. And while total card spending dropped 7% on the week, a net 3% of firms reported rising turnover in July. While the economic waters look calm, a danger lurks beneath.

Shop till you drop. Case in point – retail sales. Whilst consumer confidence may be on the decline, UK retail sales volumes demonstrated modest growth of 0.3% in July – approximately 2.3% above their pre-coronavirus February 2020 levels. A £325 Cost of Living grant and an income threshold hike for National Insurance Contributions should cushion spending in August, even as retailers report raging inflation is aggravating affordability concerns. But the real challenge for retailers is likely to come this winter, as the increase in the energy price cap looks set to deliver a blow to real disposable incomes.

Hot summer's days. And while winter is coming, summer isn't done taking its own toll. Those reporting Cost of Living increases went up in the latest Opinions and Lifestyle Survey; 4 out of 10 energy bill paying adults said they found it very or somewhat difficult to afford them. Climate change is a growing concern with three-quarters of adults saying they were very or somewhat worried about the impact of climate change. 21% said their leisure activities were affected and 14% said their general health was affected. Among the most common reported actions taken by all adults was staying out of the sun between 11am to 3pm, where possible (65%). In line with this, anecdotal evidence suggests the heatwave curtailed travel and sales across parts of the UK.

Is it greener on the other side? Perhaps. While the flat reading of US retail sales in July was unexpected, it depicts the impact of retreating gas prices, rather than waning consumer spending. In fact, adjusting for price changes (goods prices fell 0.5%), retail sales increased 0.6%. Lower gas prices freed up money for spending on consumer durables. Indeed, “core” retail sales (excluding gas, autos, building materials and food services) rose 0.8%. Plus, an Amazon Prime Day never hurts. In the coming months, strong wage growth amid a tight labour market, receding inflation and ample savings should prop up consumer spending, assuaging recession fears.