We’re well known in this part of the world for bemoaning the weather. But in recent times, it’s prices that we have been lamenting in our chit-chat with neighbours and in the pub. And that’s not surprising given the vast increases in the cost of things like gas and electricity that we have seen. To put this in context, if beer prices had increased at the same rate as gas, we’d now be paying about £40 a pint in some establishments.

CPI inflation for July was 10.1 percent, its highest rate in over 40 years. (RPI hit 12.3 percent, the inflation rate that the Bank of England apparently indexes its pensions to.) Whilst energy prices have been the dominant factor pushing up the rate of inflation until now, the latest pick-up is related to rising food prices. The rate of inflation for food prices increased to 12.8 percent, the highest rate in over 20 years. People will already have noticed big increases in the price of their weekly shop, but it’s now official. Low fat milk saw the biggest increase in price at 34 percent, whilst bread and cereals were up 12.3 percent,

meat was up 13.1 percent and the humble spud was up almost 16 percent. Outside of food, there were big increases in the price of electricity and gas (54 percent and 95.7 percent respectively) and the price of insurance has increased 13.6 percent. And whilst we have seen petrol and diesel prices come down at the pumps in recent weeks, the latest inflation figures highlight the extent of price rises over the year to July when they up 42.9 percent and 46.1 percent respectively.

These are figures across the board on a scale I haven't seen before. And there's likely to be little respite in the near future for consumers with the CPI inflation rate expected to continue to increase. The Bank of England projects that it will rise to 13 percent by the end of the year and only then will the rate of inflation start to come down, but nowhere near as fast as the Bank of England, businesses and households want it to. When we look at producer prices (or 'factory gate inflation') which are perhaps an even more timely indicator, these were rising at 17.1 percent in July. This is the highest in 45 years. These figures show the extent of price rises that are still to feed through into the prices consumers pay.

Just last week, the US bank Citi predicted that inflation will hit a staggering 18 percent. And I expect food price inflation will reach 20 percent. With wages rising at a fraction of these rates, the already record squeeze on household incomes will intensify.

For businesses, this is a perfect storm. If you were a business operating with the same budget for energy this year as last, you would only be able to keep the heating on for less than one day of the week this year compared to five last year. In banking, customers wanting to borrow money are asked to submit a business plan that includes projections for things like turnover, market conditions and costs. The bank will test these against potential adverse scenarios. The absolute worst-case scenarios have been exceeded. The reality is that if businesses in the likes of the hospitality sector had submitted business plans with

projections akin to the reality of what firms are now seeing, they would have been told that they would be unviable if they came to pass. To the credit of many businesses, they are actually navigating the current environment, perhaps only just. Some companies are though currently going under and if things get much worse, we will see an increasing number of business failures.

Energy prices are therefore understandably much talked about at present. But we're also known in this part of the world for talking about house prices. Indeed, chatter about the housing market at dinner parties and barbecues has risen almost as fast as inflation. But whilst house price chatter will likely continue for the foreseeable future, it could turn to price falls in some parts of the market rather than rises in the months ahead as inflation and the cost-of-living crisis impact on the market. Though even the most pessimistic armchair commentator who is earthed to the facts on the ground is unlikely to be predicting a crash like we saw in 2008-9.

Since the onset of the pandemic two and a half years ago, house prices in Northern Ireland have risen by more than 20 percent, that's double the rate of increase seen in the two-and-a-half years before. Going forward, the rates of house growth will slow significantly for a range of reasons. The cost-of-living crisis, interest rate hikes, tax rises and declining consumer confidence are all headwinds that the housing market will face in the months and years ahead. This is in sharp contrast to the favourable conditions the housing market faced a couple of years ago, when interest rates hit record lows, inflation was almost non-existent and the cost of things like fuel and energy were all falling. With all of these reversed, the conditions are therefore now in place for house price growth to slow rapidly; and some might say even potentially to go into reverse. Incomes are set to be squeezed like never before. The one thing that will mitigate against price falls though is the lack of supply to meet demand. And this demand is being fuelled by a range of factors, including buyers from GB, and the fact that the labour market has become more international than ever before

with people living here but doing work outside of NI and getting higher salaries as a result. Traditionally the house-price-to-earnings ratio was an important benchmark for analysts to gauge affordability but in this new era, house prices are no longer as restricted to local earnings. The lack of supply was an issue before the pandemic and has become even more of an issue now. Indeed, recent figures showed that housing starts and completions continue to fall.

Rising costs are triggering a cash crunch across households, businesses and the public sector. Undoubtedly a new Prime Minister will unveil a package of measures to alleviate the stresses that are emerging, but the Bank of England is going to move in the opposite direction. Its determination to get inflation under control means Bank Rate will rise to three percent by Christmas, with markets expecting a rise to four percent by May next year. Rising mortgage payments rather than rising house prices will therefore soon become the hot topic of conversation. The Bank of England's 'bad medicine' will taste horrible in 2023 but we should see its benefits – in the form of lower inflation – start to take affect by the time we get to 2024.

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