An economic slowdown is becoming more and more apparent in the UK and elsewhere. PMIs, business surveys and other high frequency real-time indicators all point to it. In the UK consumers are tightening their purse strings as they brace for exorbitant energy bills. Forecasters can't revise their inflation numbers fast enough to keep pace with wholesale gas prices! The size and shape of policy support takes on greater significance with each passing day.

Going soft. Softer demand conditions were evident across the UK's private sector in August. The pace of growth in business activity (as measured by PMIs) slowed to 50.9 – an 18-month low. Continued growth in services kept the composite index above the PMI expansion / contraction threshold of 50. A slight moderation in inflationary pressures provided little consolation to manufacturers who witnessed their sharpest drop in output (42.4), outside of the pandemic, since the start of 2009. Waning confidence led manufacturers to reduce staffing levels for the first time since January 2021. Conversely, services firms continued to increase their headcount. But even that is about to get a real test as demand across the economy cools.

Bearing the brunt. These trends were corroborated by CBI’s industrial trends survey. The UK’s factories are now feeling the pressure as higher costs, weaker demand and supply bottlenecks combine to send growth into reverse. The survey showed that in the three months to August manufacturers’ order books shrank and industrial output fell for the first time since April 2021. More inflation is forecasted so firms aren’t expecting any growth in sales volumes for the rest of the year, but with wholesale energy costs spiralling even that expectation may prove optimistic.

Spiralling. UK businesses continue to battle with stratospheric energy bills, weaker domestic demand, and rising fears of a recession. A third of the surveyed firms plan to raise prices in September as higher goods and services prices (27%) and accelerating energy prices (22%) remain the key concerns. These fears are very real given European gas prices hit the highest level on record last Friday. Not surprisingly, a fourth of businesses had a weaker financial performance in July vs June. Any silver linings? Global supply chain disruptions have continued to ease since June which bodes well for some aspects of inflation (goods price pressures should alleviate). But overall, the outlook remains extremely challenging.

Winter is coming. And UK consumers are preparing for it. Real-time data suggest that consumer spending eased in the week of 19th August with CHAPS card spending down 4%. Google mobility data fell, with park visits down by 10%. Given the intensification of the cost-of-living crisis, consumers appear to be cutting back a bit. Despite that consumer services demand appears resilient at least for now; diner numbers at restaurants in the week to 21st August were 28% higher than their equivalent week in 2019. Yet gas prices continue to be the big mover as the energy crisis deepens. Wholesale prices rose by 20% and are now 243% above thecorresponding level a year ago.

Energy eclipse. Come winter, UK’s energy needs will rise exorbitantly. Almost half of its gas demand occurs in January – March. But Ofgem confirmed a long-predicted 80% hike to average household energy bills. This means households will see their energy bills as much as quadruple in peak winter, Resolution Foundation reports. The cold will be especially biting for the poorest echelons who are mostly on pre-payment meters and may have to spend almost half their disposable income in January alone. It won’t come as a surprise if some opt for their power being cut. For those who pay in other ways, we’re talking mounting arears, and consequently, falling credit ratings.

Trade Tensions. How have the sanctions applied to Russia impacted the UK’s trade with the country? Quite a bit, it turns out. Goods imports from Russia fell by 96% to £33mn in June over the monthly average in the 12 months to Feb. No fuels were imported that month, a record first. For context, Russia was the UK’s largest supplier of refined oil prior to its invasion of Ukraine, and an important supplier of crude oil and gas. An increase in fuel imports from the Middle Eastern and other parts of Europe only partly compensated for the shortage. Most exports to Russia have also suffered, posting similar trends, expect chemical and pharma products which are exempt from sanctions. Shortages will persist so long as the sanctions last.

Tattered dreams. Apart from waning demand pressures, lost potential is also an economic drag. There was a small increase from Q1 to Q2 in the number of young people aged 16-24 who are those Not in Education, Employment or Training (NEET). A surprising one in ten (10.4%) aged 16-24 are not in work or gaining the education or training to secure one. For those aged 18-24 it’s one in every eight. More surprisingly, this share of NEETs has fallen recently—it was one in six in 2013. Nonetheless, behind these stats are a sobering waste of people potential and their sense of self. Besides, it’s so hard to make up time lost.

Dropping. When it comes to slowing business activity, the UK is far from alone. The

Eurozone’s composite PMI dropped once again in August, reaching an 18-month low of 49.2. Manufacturers are faring especially poorly. The data point towards a modest outright contraction in Eurozone GDP in Q3. Across the pond meanwhile, US firms are experiencing an increasingly sharp downturn: the composite PMI plunged to 45.0 in August, signalling the second successive month of declining activity. Reports suggest customer demand is faltering amidst strong inflationary pressures and interest rate hikes. So tentative signs that price-pressures are beginning to ease are welcome.