



To say that the past 70 years have seen some significant economic change would be a profound understatement. In 1952, one in three in the UK worked in manufacturing, it's now one in 12. Almost 5% of folk worked in agriculture, less than 1% do now. The UK was the world's third largest economy in 1952, behind only the US and the USSR, accounting for 10% of global merchandise goods trade. It's around a quarter of that now. In 1952 women only accounted for under a quarter of first degrees, they now account for a majority. And for 60% of higher degrees. While female employment rates are up by a third. Transformations elsewhere were in abundance - from the 'trente glorieuses' of our European peers, Japan's post-War miracle, the Asian tigers, and the rise of China and India. Condolences to everyone in the Royal Family. We have witnessed the end of an era, and pay tribute to someone who contributed, in no small part, to economic history.

**Rescued, again.** After weeks of ever rising estimates of where fuel bills could climb to, a line has been drawn. For the next two years an average household will pay no more than £2.5k for their energy. It's welcome relief for households. For businesses there's less certainty. They're set to receive what the government described as "equivalent support", but only for six months. Thereafter the focus would be on "vulnerable industries". A review will decide which ones. Many will lay claim that they should be covered. But at a stroke the intervention reduces a key source of risk for the economic outlook, while lowering the inflation peak. But not cost free. Interest rates will likely need to go higher still to contain knock-on inflation.

**Uncapped liability.** Question: how much does protecting households and businesses from Putin's gas squeeze cost? Answer: about the same as what we spend on health. We'll only find out the government's estimate later this month. But some estimates put it at £170bn, equivalent to the Department for Health and Social Care's Budget this financial year. The truth is we don't know. It's all subject to swings in wholesale gas prices. As we've seen in recent weeks, these can be huge.

**Same old.** The same persistent problems continue to plague a majority of UK businesses. Input price inflation and energy prices top the list, with 26% and 22% respectively of businesses reporting them as their top concern for October. With the construction and hospitality sectors being the most affected. The proportion of businesses reporting inflation as their main concern has barely changed since May. In the meantime, 23% of businesses reported they were on a variable rate for electricity, while 16% said so for gas. The newly announced energy support package alleviates some pressure for the next 6 months. However, more clarity is required for the scope and cost of support.

**Uneven.** But higher energy prices are not affecting all UK companies equally. In 2019 the most energy intensive (share of energy cost in total cost of material inputs) industries by a

large margin were Electricity (24.3%) and Transportation and Storage (20.7%). Electricity and Healthcare sectors are heavily reliant on natural gas, which accounted for more than a quarter of their energy spending. With shortages in natural gas supplies in Europe and sky-high prices, this winter will be particularly difficult for companies in those sectors. Not surprisingly, businesses in energy intensive industries are more likely to have reported being affected by recent energy price rises.

**Flatlining.** The most visible signs of weakness within the UK economy continue to show more for firms than households. So, it's sensible last week's substantial energy package included support for small businesses. Online job adverts fell 3% in the latest week, with the number of start-ups also dropping 3% (to be fair business closures also fell). The consumer picture's hazier. One source of card data shows spending jumping 6ppts, while another shows spending falling in most categories, but especially on eating out and pubs. In short, the signs point to an economy flatlining; nothing more, nothing less.

**Flopaholic.** For their part, UK shoppers reined in spending on clothing and non-essential items in August to cover their soaring utilities costs. According to the British Retail Consortium, growth in sales dropped to 1% y/y in August from 2.3% y/y in July. Albeit lower than general inflation, retail inflation is still eye-wateringly high. Growth in sales values, which are unadjusted for inflation, belie a substantial drop in volumes. Clothing sales, one of the most robust performers in recent months, were sluggish as summer events ended, and parents held back on back-to-school spending. Appetites are unlikely to recover this winter even with the relief package.

**Frontloading.** The ECB lifted its key policy rates by 75bps in the September meeting to 'frontload the transition from the prevailing highly accommodative level of policy rates towards levels that will ensure the timely return of inflation to the ECB's 2% medium-term target'. More tightening is on the way. The ECB continues to see inflation as 'far too high'

and bumped up its forecast for inflation significantly. That said, the ECB remained non-committal on the pace of tightening in the months ahead, maintaining a data dependant stance. Growth forecasts were lowered, almost consistent with a technical recession in the second half of this year, implying it might enter restrictive territory soon enough.

**Outlier.** And while most central banks are hiking interest rates in a bid to tame above-target inflation, the People's Bank of China (PBOC) is one notable exception. China's CPI increased by 2.5% y/y in August, down from 2.7% the previous month and comfortably below expectations and the PBOC's 3% ceiling. Core CPI, which excludes food and energy, remained unchanged at a subdued 0.8% y/y. The latest CPI readings suggest a further weakening in domestic demand, exacerbated by Covid-19 related lockdowns. Last month the Chinese authorities lowered most of their key policy rates with further cuts possible in the months ahead. China appears to have locked down price stability, at least for now. Central banks elsewhere must do likewise.

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