Change is the only constant in the UK. We now know who the new Prime Minister will be, and the Conservatives appear determined to press ahead with a pivot back in the direction of fiscal orthodoxy (cue the upcoming October 31st fiscal plan). But much of the the damage to the economy has been done – interest rates have risen sharply and growth indicators are on the slide. Sleepless nights again for the Treasury and BoE?

Food for thought. In recent months, energy costs passed the baton to food prices as the primary driver behind UK inflationary pressures. Food prices rose by 14.6% y/y in September – the fastest rise since 1980 – taking the overall CPI rate back to 10.1% (the level it was in July). Staples such as eggs, pasta and the humble spud have risen by 20% or more with low fat milk up a whopping 42.1%. Inflationary pressures aren’t confined to food and energy. Services CPI – a loose proxy for domestically generated inflation – reached a new 30-year high of 6.1%. Those on welfare benefits and the state pension will be relieved to hear that September’s rate will be used to uprate their benefits next April.

Talking taxes. Chancellor Hunt’s rollback of tax cuts and the Energy Price Guarantee (EPG) is a double-edged sword. It will help fill the gaping hole left in the public finances and bring down borrowing costs. But households will see their energy bills surge from the current freeze of £2.5K to £4K come April. Tougher decisions lie ahead, as Hunt himself admits. Public sector borrowing jumped to much higher level than was expected last month, causing sterling to fall and gilt yields to rise. Pressure is now on the Treasury review to come up with a more targeted and cheaper successor for the EPG.

Problem problems. Public sector borrowing hit £20.0bn in September (+£2.2bn y/y) thanks to higher debt interest payments. The figure was much larger than the £14.8 bn forecast in March by OBR, and above consensus estimates. In addition, a high level of borrowing also reflects increased spending as a result of a £4.4bn increase in net social benefit payments, to help households with their winter energy bills. The good news is that the year-to-date public borrowing, which has totalled to £72.5bn, is slightly below the OBR’s £72.9bn forecast. This trend, however, will reverse soon, as the downturn in economic activity develops. When combined with the cost-of-living crisis and the shrinking economy it seems that the problems are piling up in the prime ministerial in-tray.

Shopper’s saga. The drumbeat of gloomy data continues. Retail sales were also worse than expected and volumes fell by 1.4% (m/m) in Sep, as soaring prices prompted shoppers to rein in spending. Food store sales volumes fell by 1.8%, as consumers stayed off extra trolley treats or more expensive dining habits. Spending on bigger ticket items (like household goods) fell by 1.5% and automotive fuel sales volumes also dropped. Perhaps understandable given that GfK consumer confidence index edged up only 2 points to -47 in October from a 50-year low in September. Consumers are concerned about rising food, energy, and mortgage costs as well as the possibility of tax rises and austerity measures.

Last days of summer. It’s August. Much of the country is sweltering in the summer sun and newspapers are filled with the (last) Conservative leadership election. Housing is a seller’s market and house prices are climbing steadily: up 1.1% in the last month and 13.6% higher than last August. More of the same ahead then? Not likely. Spiralling mortgage costs – average 2-year fixed rates have leapt 2.5ppts to 6.5% since early August, according to Moneyfacts – are squeezing would-be homebuyers hard, reducing what they can afford to offer. Time to wrap up warm, a house-price slump is coming.

Interesting times. This is how the Resolution Foundation called the outlook for mortgagors – like in the famous curse. And they have a point. By the end of 2024 over 5M households – almost 1/5th of all UK households – will be paying more for their mortgages than now. On average mortgage payments will increase by £3.5K per year with large regional variation – households in London will be strongest hit with a £5.5K average increase in payments. Higher income households would be hit the hardest in absolute terms. But lower income households (bottom 20%) will have the strongest impact on their living standards with increase accounting for at least 10% of their income.

Muddling through. Real time indicators showed minor growth this week. The number of people eating out rose by 4% in the week to 16th October and UK flights reached 88% of their equivalent pre-COVID level, the highest figure recorded since March 2020. Despite these positive glimpses, businesses are still struggling to make ends meet. As of October, 41% of businesses reported that they had less than three months’ cash reserves, and 10% of production firms reported a lower September turnover compared to the month before. With businesses scrambling for spare funds, it is no surprise that the number of employers proposing redundancies,while still low, has started to inch up over the past month.

Survival of the fittest. UK businesses have also suffered a trade slump as rising costs and inflation continue to test their resilience. 48% of businesses have reported higher supplier prices. Unsurprisingly, energy bills remain the top reason (39%) businesses are considering increasing their prices next month. This figure rises to 75% for the hospitality sector as they attempt to soften the blow. In September, 26% of businesses have reported lower turnover compared with August. This figure doubles for the hospitality sector at 52%, with food and drink inflation hitting a 42-year high and consumers tightening their belts as they prioritise spending on necessities amidst the cost-of-living crisis.