This week’s interest rate decision from the Bank of England will be the first since the September “mini-budget” announcement unleashed a period of political and market turmoil. Markets and economists are counting on a 75 bps hike—the largest since 1989, and a quantum the ECB chose to adjust its benchmark rate just last week. But the real pain for the MPC is forecasting the economic and inflation outlook amid the current uncertainty around the new PM’s pending fiscal strategy.

Deteriorating. Activity amongst firms is cooling, with confidence falling in response to domestic events and weaker global demand. The UK PMI, a closely watched survey, continued to contract with the October print slipping to its lowest level since March 2009, excluding months of lockdown (47.2 vs 49.1 in Sep). Granted, some of it could reflect a worsening of sentiment amid financial market turmoil and might subsequently rebound in response to the stability of recent weeks. But notably weaker new orders, including from overseas, point to the adverse effect of an uncertain outlook and the cost-of-living crisis. The employment sub-index eased too. The only encouraging news was that weaker composite output price index which was the lowest level since August last year, suggesting some degree of inflation relief might be on the way.

Tea-total. The UK is starting to sink under the weight of the not-so-temporary Cost of Living crisis. 93% of people have reported an increase in their cost of living in the last year, with 79% noticing a rise in September alone. Much of these additional costs are due to the usual culprits – 45% of people struggling with energy bills and 30% with rent and mortgage payments. What’s more, the public can’t even rely on the humble cuppa to cheer themselves up, as prices of tea have climbed 46% in the last 12 months, alongside other rising everyday staples, such as pasta (60%), and milk (up 25 pence per 4 pints).

Broken Record: To no surprise, UK businesses are facing similar problems, with 25% citing input price inflation, and 22% citing energy prices as their main concerns for November 2022. Corroborating the CoL survey results, real-time indicators show consumers reining in credit and debit card spending by 5 percentage points in the latest week. When zooming out, we can see a glimmer of hope, with retail footfall slowly creeping back towards pre-pandemic levels, with overall footfall being 87% of the equivalent week in 2019. A similar trend is seen with daily UK flight activity at 85% of pre-pandemic levels

Rate reining. Bank of England deputy governor Ben Broadbent has questioned whether markets are overstating how high interest rates will rise to tame inflation. Back in August markets expected rates to peak at 3%, but up until recently were expecting them to hit over 6% – a huge jump that would knock just under 5% off GDP, according to BoE modelling. The Bank’s internal modelling of rate rises required to offset the inflationary effects of recent developments (i.e., weaker sterling and the Energy Price Guarantee), shows an additional interest rate increase of 0.75 ppts is required vs. a far larger rise estimated by markets.

While acknowledging that everyone should take this comparison with a "healthy dose of salt", the deputy governor expressed doubt that rates would rise to the level expected by the markets.

Worried. This is how three quarter of British adults feel about climate change, a level similar when compared with last year. The proportion of adults that are not worried about it is 9%, somewhat larger than 6% recorded last year. Climate change is the second biggest concern facing adults in Great Britain (74%), with the rising cost of living being the main concern (79%). And it's not just words – 75% of adults made lifestyle changes to tackle the climate change, although it is lower than last year (81%). The effect of those hot summer days is visible, too. The biggest impact of climate change that adults expect to experience by 2030 is rising UK temperatures (75%), increasing by 13 ppts compared with just 6 months ago.

No surprises. The ECB pressed ahead with tightening monetary policy, hiking interest rates by 0.75% for the second time running. That was in line with consensus and takes the Eurozone deposit rate to 1.5%. With inflation still "far too high", the governing council looks likely to raise rates further when they meet again. But the pace of increases may soon slow. In what was seen as a dovish shift, the ECB statement notes that "substantial progress" has now been made in "withdrawing monetary policy accommodation", whilst Christine Lagarde for the first time acknowledged the likelihood of a forthcoming recession in the bloc.

Red flag. Indeed, stress signals intensified across the eurozone (EZ) as well as the US in October. The EZ's 'flash' PMIs show the rate of economic decline accelerated to its fastest pace since 2013 (48.1 to 47.1). The culprit? Energy prices. The casualties? Energy intensive sectors, including manufacturing. So no surprise Germany reported the steepest decline. France straddles the PMI's singularity point, delicately poised on 50. And in an act of economic solidarity, the US outlook is also deteriorating – its headline reading fell from 49.5

to 47.3. Absent Covid, that’s the 2nd fastest decline on record. Only August was worse. Beware. The economic waters look choppy.

Worrying times. China’s growth rate slipped in Q3, with GDP expanding by a relatively modest 3.9% y/y. Most developed countries would dearly love a growth rate of close to 4% these days, but this is a very modest pace by Chinese standards and it points to a range of difficulties being faced by the economy. Prime amongst those are a property market crisis where developers are threatened by oversupply and themselves overindebted. But large regional lockdowns due to Covid outbreaks are also still a big hindrance with Guangzhou and Wuhan amongst the latest to introduce strict measures. Layer on rising international tensions, especially with the US, and China’s growth may yet get slower before it recovers.