Last week UK became the only G7 country in which GDP fell in the third quarter, having never recovered to its pre-Covid peak. But there’s worse to come. Chancellor Hunt’s return to fiscal orthodoxy entails tax hikes and spending squeezes that will be delivered in the Autumn Statement this week. Tighter fiscal and monetary policy will continue to weigh on household spending. Hopefully there are measures on Thursday that help pave the way for a recovery.

Shrinking. The UK economy shrank in Q3 and remained below its pre-pandemic level. On a monthly basis, economic activity fell by 0.6% in September, due to drag from weaker services and manufacturing sector. Granted, half the fall was due to the additional bank holiday because of the Queen’s funeral. But the problem runs a bit deeper. The drag also came from weak consumer and business confidence amid rising inflation and rates. For instance, consumer spending fell 0.5% over the quarter as households reduced their discretionary spending. Business investment was down, too. Overall, the latest GDP print provides a sobering backdrop to the upcoming Autumn statement where the Chancellor will deliver a path for fiscal consolidation amid a slowing economy.

Halloween for homebuyers. The financial market turmoil which followed the Mini Budget served-up a nightmare for borrowers last month. Quoted rates for 2-year fixed mortgages leapt 1.75% in October alone. For those with a 25% deposit, mortgage rates topped 6%, the highest level since 2008. That leaves households facing rates that have risen a jaw-dropping 4.7ppt in the space of a single year (a 4-fold increase). With a semblance of calm having returned to markets, the hope is that October marks the high water mark for mortgage rates. Even so, a difficult period clearly lies ahead for many.

Mixed signals. Consumer behaviour indicators show mixed activity in the latest week. UK credit and debit card purchases increased by 6%. However, the rise should be taken with a pinch of salt, given the usual seasonal upswing in spending, double-digit inflation and the school holidays. Seated diner numbers fell 12%, and retail footfall fell to 88% of the equivalent week in 2019. Gas prices saw the largest week-on-week increase this year, rising by 110%, taking the figure to over 3x the pre-pandemic baseline. It's the same old story for businesses, with 44% experiencing increased input prices in October, while 20% increased output prices.

Sick man of Europe. It's a term that's been applied to many different countries in the last century, but the UK is currently fulfilling its characterisation in a very literal sense. Since 2019 there are half a million more people out of work due to long term sickness. Two thirds of this increase has occurred since the pandemic, so Long Covid and other complications are clearly prime suspects. But the figures were rising before then and record NHS waiting lists are thought to play a significant role as well. Sickness affects older age groups more acutely, but worringly the biggest rises in sickness are occurring amongst 25-35 year olds.

Yet another challenge for the Chancellor to grapple with in his Autumn Statement.

Slowdown. Weakening global trade is buffeting the UK. UK joins the slowdown of global trade as its total trade fell by 3.1% m/m in September, driven by drop in fuel prices. Imports dropped by 5%, driven by a drop in gas imports and the cost of imported oil. Fuel imports from outside the EU, mainly Norway, fell the most in September. Exports dropped as well by 4.7% m/m and were below pre-pandemic levels in Q3 after adjusting for inflation. What is more, other G7 countries are showing the strain — Germany’s exports and imports both dropped in September – while global trade declined by 0.8% in October. What is different though is that UK trade is slowing without having fully recovered from the pandemic.

Still rising. COP27 has started in Egypt with the backdrop of a report that global emissions hit a record high this year. If emissions continue at today’s levels, the remaining carbon budget to limit warming below the 1.5C target of Paris climate accord would be used up in just nine years. Reaching net-zero emissions by 2050 would require a decrease comparable to 2020 each year. Global temperature is already 1.2C above pre-industrial levels. As the damage from climate change continues to increase, so do the calls from the most affected nations to establish “loss and damage” funding fund. Can a breakthrough be made in Sharm el-Sheikh?

Hit & miss. As far as its’ dual mandate is concerned the Fed is hitting its labour market target but well adrift of its inflation objective. Unemployment edged higher to 3.7% in October but remains at historically low levels. CPI inflation looks to be past its peak with the annual rate slipping from 8.2% in September to 7.7% last month. Core CPI, which excludes food and energy, eased from it forty-year high of 6.6% to 6.3%. Traders jumped on the latest data, triggering a relief rally on Wall St, as a sign that the Fed’s won’t deliver a fifth successive 75bps rate hike next month. Instead markets expect a more ‘modest’ 50bps rise.

Slowing. China’s CPI inflation fell to 2.1% y/y in October, down from 2.8% in September, which not so subtly hints at the country’s ever weakening domestic demand, all thanks to their relentless zero-Covid policy. While the rest of the world deals with higher and higher inflation, China is instead seeing slowing industrial production, lower retail sales, and a fall in foreign demand for their goods. However, they were not exempt from the global rise in food prices, seeing hikes of 7% this month, with pork prices rocketing by 51.8%, from 36% in September. Nevertheless, given the other domestic factors, CPI inflation will most likely continue to slow (core prices rose a mere 0.6% and producer prices are actually falling), unless China’s zero-Covid policy undergoes a major rebrand.