Last week’s limelight was on Chancellor Hunt who delivered a much-awaited path for fiscal consolidation. While this should assuage financial market concerns and pressure on the BoE to tighten rates, households will be hit hard. Sure, the OBR seems optimistic about the pace of recovery but that won’t materialise anytime soon. Plus, energy bills will rise again in April. More tough times ahead.

Recession ahead but could be worse. The Office for Budget Responsibility revised down its growth forecasts, projecting the UK has entered a recession that will last until late next year. That said, Government fiscal support for households and businesses should limit the fall in GDP to 2%, vs 3.2% in the absence of support. The expected drop in GDP in 2023 is similar to the Bank of England’s November view but the OBR expect recovery to come notably faster and stronger. That’s assuming households respond to the sharpest drop in living standards on record – a 7% fall in real disposable income over the next two years – by dipping into savings (supporting spending) and an optimistic outlook for productivity growth.

Tightening no more. Finally in September the unemployment rate stopped falling. But the UK labour market is yet to build up slack. While recruitment activity has been coming down due to hiring freezes, this is largely being offset by less and less participation in the workforce, and long-term sickness is to be blamed for that. By nature, this will continue to curb domestic participation going forward but rising wages and more immigration (partly due to higher wages and partly as post-covid hesitance to migrate subsides) should boost some labour supply. Next year’s recession will cast a further dampener on hiring appetite and may lead to redundancies. Watch out, the labour market is no longer a source of good news.

More working less. October revealed another record number of employees on NI’s payrolls but an emerging trend is more people are working fewer hours. Average weekly hours worked fell to 31 hours in July – September, that was two hours fewer than the same quarter in 2019 and the lowest average hours worked in Northern Ireland on record. Full-timers are now working 34.9 hours per week, almost 3 hours less than July – September 2019 and the lowest amount outside of the pandemic. Lifestyle changes following Covid-19 plus increased incidence of long-term sickness are contributing to skills shortages.

Squeaky peak? Annual CPI inflation reached a pocket pinching 11.1% in October, or a mighty 2% monthly – that's the annual rate the Bank of England aims to hit. Energy prices were the main contributor, up 24.7% on the month. They would have been closer to 75% without the cap. Only transport, specifically fuel and 2nd hand cars, helped offset the general rise in prices. So as those of a certain age will recognise, Arthur Daly ain't happy. Still, two rays of light are the OBR think inflation has peaked and that producer prices, a decent lead indictor, continue to slow.

Anticipated Slowdown. The housing market is cooling down. House prices eased to 9.5% y/y in September, from 13.1% in August, amid surging mortgage rates and a recessionary outlook. They also failed to rise monthly, for the first time since October 2021. But these marked shifts belie base effects from the end of stamp duty holiday in September 2021. Still, this was inevitable as sharp increase in interest rate this year has slowly fed through into mortgage products. What's more, OBR forecasts 9% fall in house prices starting this quarter until the latter part of 2024. Lower house prices will make already-gloomy consumers even more miserable.

Still climbing. Property prices continued to rise in the third quarter with NI's residential property price index hitting its highest level since Q2 2008. The pace of growth accelerated to 4.1% q/q in Q3, a rate of increase not experienced outside of the 2005-2007 boom. The standardised price of a local home stood at £176k in the 3 months to September, some 10.7% higher than a year ago and more than one-quarter above pre-pandemic levels.

Residential property prices have risen by 81% since prices troughed almost a decade ago. Since then homeowners have become accustomed to continuously rising prices and low interest rates. That interest rate bubble is in the process of bursting, expect prices to change direction in 2023 too.

Tightening. Whilst rising interest rates and affordability concerns will put downward pressure on property prices, tightening supply will offer some price support. The supply of new Northern Ireland housing units continues to fall with housing starts and completions falling by 18.5% y/y and 14.4% y/y respectively in the third quarter. Local building sites recorded their weakest Q3 since 2013 for housing starts while completions were at a seven-year low for the same period. Housebuilders haven’t had their sorrows to seek since the pandemic with supply-chain disruption alongside the spiralling cost of building materials. A squeeze in affordability and demand can also be added to their list of woes.