Some mild respite for businesses as last week’s data suggests some easing of price pressures. Energy crisis concerns are also at their lowest since Feb’22 when the war in Ukraine began. But consumers remain cautious, staying away from taking more debt or running down savings. Too bad, for those lucky enough to have accumulated some Covid savings, they’d be of real benefit to the economy. Thankfully, holiday spending in the final weeks of the year should spur some gains.

Spendthrift. Still no sign of UK households drawing down savings to support their expenditure, casting doubt on those forecasting a drop in the savings ratio that will help shorten the recession and quicken the recovery. And households are not flexing their credit cards either. Consumer credit growth decelerated to 7% in Oct from 7.4% in Sep. In fact, the stock of unsecured debt is still 8.6% below its Jan‘20 peak. Until consumers’ confidence recovers, unsecured borrowing will remain weak. The housing market is feeling the pain too, as a jump in quoted mortgage rates led to a sharp fall in house purchase mortgage approvals. And things will get worse as effective rates on new mortgages jump to 5.5-6% from around 3% now.

Striking. Whether it’s teachers, medics, railway or postal workers we’re clearly in an era of strained industrial relations. That’s hardly surprising with inflation running at double digits, but it is a big change from recent decades of relative calm. We may only just be getting going but UK businesses are already reporting substantial impacts. 1 in 8 businesses reported that they were affected by strikes in October, with problems getting supplies being the most common impact. Still, the 87,000 working days lost to strikes in the latest month is barely a blip when we look historically. The worst month was September 1979 when an astonishing 11.7 million days were lost, not a benchmark that anyone wants to see broken.

Baby steps. Inflationary pressures may finally be starting to ease-off. A bit. Gradually. That’s the cautiously encouraging message from UK business leaders. Firms’ prices were 7.2% higher in November compared to last year, improving on the 7.8% rise reported in October. Better still, firms now expect to raise prices by 5.7% over the coming year; 1ppt less than previously planned. True, firms still face acute cost pressures: wages rose 6.1% this year and are expected to climb another 5.8% over the next 12 months. But with 17ppts fewer firms now experiencing severe recruitment difficulties (vs 3m ago), even wage pressures may soon begin to subside.

Mixed Bag. A sustained contraction in domestic labour force participation was evident in the latest BICS survey, which posted that almost a third of UK businesses with 10 or more employees reported they were experiencing a shortage of workers, with the health industry reporting the highest proportion of businesses affected, at 54%. However, around 17% of businesses reported their employees’ hourly wages had increased in October. Further, input price inflation and energy prices continued to remain the top two concerns reported by businesses, at 25% and 19%, respectively. That said, energy price concerns are at the lowest level reported since late Feb’22.

In the dark. Lines of communication are vital between the Bank of England and HM Treasury. But as many suspected at the time, the BoE was kept in the dark about Kwasi Kwarteng’s infamous ‘mini-budget’. Governor Bailey spilled the beans on the state of the dysfunction between the two bodies when probed at a Westminster Committee hearing. With the OBR benched from forecasting duties, the BoE was deprived of the substance necessary to make a judgement on the budget. The MPC was blindsided when it hiked interest rates by ‘only’ 50bps the day before the not-so-mini-budget. Apparently, the details were not settled the day before the Chancellor stood up so Treasury officials were in the dark too!

Unemployment, who? An unemployment problem occurs when lots of people cannot find work. The US economy remains at the other end of the spectrum. The US added 263,000 jobs in November, more than expected, with unemployment rate remaining unchanged at 3.7% – close to a 50-year low. The Fed won’t like the renewed pressure on pay and its effect on prices – average hourly earnings increased by 0.6% in Nov MoM, mounting to 5.1% at an annualised rate. Will strong hiring and robust wage growth deter the Fed from its earlier signal to moderate the pace of interest-rate increases in December? We need to wait and see. But the labour market data is a reality check for those thinking there wil be a sharp change soon.

Grounded zero. Europe’s elevated gas storage levels for the winter ahead has China’s zero-Covid strategy to thank. Subdued demand for gas amid rolling lockdowns has been a lucky development, less so for China’s economy. The latest PMI suggests the policy continues to take its toll on activity. The services PMI has been on a downward trajectory since June, falling to just 46.7 in November. For many in China, patience with zero-Covid has run out. Cue a statement from China's vice premier that the country's efforts to combat the virus have entered a new phase. Some easing of restrictions has followed. So, perhaps, a fillip to global growth lies ahead in 2023. But with it greater demands on strained gas and commodity supplies.

Dark energy. It lay buried for millions of years. It powered the Industrial Revolution. Yet coal is our dirty little drug. It is both the world's single-largest source of CO2 from energy and its biggest source of electricity. To complicate matters, evidence from COP27 states that 95% of coal consumption is from countries committed to net zero. Shame then, that global coal consumption remains stuck at record highs. Indeed, current emissions would push temperature increase above the 1.5°C limit set in Paris. Transition is challenging as current coal resources produce a massive 2,185-gigawatt capacity. Yet on current pledges this can fall by a third by 2030, 75% of which could be replaced by solar and wind. But that means stopping adding new coal-fired power stations. That's easier said than done, especially during an energy crisis.

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