It's MPC week again. Although much of the turmoil that Bank of England had to grapple with in its November decision has now faded, it still faces a finely balanced decision. The UK has the worst growth outlook among the G7, its workforce is shrinking, buffeted by the impact of Long Covid, and inflation expectations have risen. While the festivities are masking some of this, fears over a post-Christmas slump are on the rise too.

Feeling gloomy: The latest Bank of England Inflation Attitudes Survey results suggest the public are increasingly unhappy with the BoE's response to inflation, with net satisfaction slumping to a record low of -12%, a vast contrast to +14% just a year ago. Unsurprisingly, the public are expecting further inflation over the next 12 months, with 22% of respondents expecting prices to rise by 3-5% and a hefty 42% expecting rises of 5% or more. Medium and longer term inflation expectations have also risen, suggesting the public are perceiving future inflation as being 'stickier' than it was in the last quarter, adding to the banks challenges.

Unrelenting. Against this backdrop, concerns about the rising cost of living dominate: 9 in 10 people in the UK rate it as the top issue facing the country and 57% are concerned about keeping warm this winter. Three-quarters of us experienced rising living costs first hand last month, due to escalating food, energy and fuel prices. The pain is felt unevenly though. Nearly one-third of people living in deprived areas had to borrow more than usual last month, twice the share in the least deprived areas. Similarly, 1 in 8 people in deprived areas were unable to pay a bill; twice the national average and 4x as many as in least deprived areas.

The long shadow of Covid. UK unemployment has been below its pre-Covid level for most of 2022, but we now have half a million more people out of work due to long-term sickness. Last week we got data showing that last year, the inactivity rate amongst people of working age with Long Covid rose by 3.8%, compared to a 0.4% rise amongst those without Long Covid. This gap was widest amongst workers aged 35-49, where inactivity rates were 12% for those without Long Covid and 20% for those with Long Covid. This data can't say precisely how many of the extra half a million are sick due to Long Covid, but it seems to be a small but significant factor in the deteriorating health of the workforce.

Dark days. Besides affecting the ability to work, the impact of Covid has taken a huge strain on the UK's mental health, with around 1 in 6 (16%) of us experiencing some form of depression this autumn. It was 10% pre-Covid. Adults out of work, who struggle financially, spend long hours caring, or manage a disability are much more likely to be depressed. Almost a quarter of people struggling with energy bills reported feeling depressed. As did nearly 3 in 10 young people (28%). Fixing the country's productivity problem means mending the barriers to achieving useful and meaningful work. So be kind. Improving the nation's mental health should be a national endeavour.

Holiday haul. Some good news. The British Retail Consortium reported that retail sales grew 4.2% y/y in Nov, thrice the rate of growth recorded in Oct. Adjusted for inflation and seasonality there was roughly 3% growth in volumes excluding petrol. The reversal of the 1.25pp increase in NI contributions and the second CoL grant payment to low-income households have certainly helped. Further, many budget-conscious consumers preponed their Christmas shopping to take advantage of Black Friday sales and avoid peak season prices. Unfortunately, households won't have the same privileges in coming months and reversal of the partial recovery in Q4 is sure to come.

Season's greetings. Despite recent hardships, Christmas preparations in the UK seem to be going full steam ahead. Real-time indicators revealed an increase in consumer behaviour in the last week, with credit and debit card purchases rising by 13% and retail footfall at 105% of the previous week (though still not quite reaching its pre-pandemic levels). However, with the festive cheer also came some not-so-merry news. Average gas prices rose by 137% in the week to 4 December, the largest weekly increase this year. Businesses are also concerned about a post-Christmas slump, with 29% expecting turnover to decrease in January beyond expected seasonal fluctuations.

More training. In the past 25 years the need for social and abstract skills in the workplace has increased while the demand for routine and manual skills have fallen. This trend is also reflected in earnings. Training is the most important way of acquiring new skills. Unfortunately, training is in decline, especially for people with lower skills and those out-of-work. In a world of stagnant productivity growth and with an increasing need for workers' wages to keep pace with prices, the UK's current system of training would be an area where policy could have an enormously beneficial impact.

Outlier. While other major economies are tackling multi-year highs of inflation, China seems to be an outlier in the global battle against inflation. China’s factory-gate prices contracted again in November, while consumer inflation eased as Covid disruptions suppressed demand but kept a lid on inflation. The producer price index fell by 1.3% (YoY) driven by falling exports and slowing industrial output growth. Consumer inflation showed the slowest pace of growth in eight months at 1.6% in November (YoY), down from 2.1% in October. Most importantly, the loosening of strict pandemic restrictions last week could be a sign that China is shifting its focus from battling Covid-19 to boosting economic growth. Will inflationary pressure pick up? This depends on the uncertain re-opening plan that China will follow.