**Last year was tumultuous for the UK to say the least—from the cost-of-living crisis, to witnessing three PMs in a mere two months, to the end of the rule of its longest-reigning monarch, and rounding off the year with a recessionary threat clouding the outlook. And that was just at home. Globally, geopolitics loomed large in 2022, exerting a far greater influence and shaping the outlook in a way it hasn't done in years. What does 2023 have in store?**

Getting a grip. The Eurasia Group has set out its top risks for the year, flagging 'Rogue Russia' (posing a broad security threat), 'Maximum Xi Jinping' (who has a grip on power unrivalled since Mao Zedong), 'Weapons of mass disruption' (new tech will be a boon to autocrats with designs on undermining democracy) and 'Iran in a corner' (odds of a regime collapse are low, but higher than any point in the past four decades). At the heart of much of these issues sits a small group of people who have accumulated enormous amounts of power, but are making decisions that have significant geopolitical consequences with limited information and little visibility for those on the outside. In other words, plenty of scope for more volatility in 2023.

A new year, a new phase. Of all the New Year round ups published in the dying weeks of 2022, one common feature stood out. Inflation is expected to fall but the squeeze on households is far from over. A reduction in the pace of price rises will be welcomed and indeed some prices, such as petrol, are already falling.  But real relief will come only when disposable incomes rise fast enough to offset inflation. Strong wage rises and a healthy, albeit weakening, labour market mean that some will be able to benefit. But with most income tax allowances frozen wages will be taxed at higher rates meaning a £700 higher bill for a typical household. The squeeze continues.

Making savings. Households remain cautious as the UK economy slides into recession.  For starters, they continued their choice to save more than usual, prioritising debt repayments instead of spending, and added £5.4bn to their savings in November, above the 2018-19 average. Next, consumer credit rose by £1.5bn, as the cost-of-living crisis takes its toll. The biggest driver was credit card borrowing, tripling to £1.2bn from October. Meanwhile, the sharp drop in mortgage approvals to 46.1K, from 57.9K in October, was another indicator of slowing demand for the UK housing market. It seems less likely that households will abandon their cautious mindset soon given a slowing economy and higher interest rates.

Consumption crunch. The latest set of UK real-time data do capture a spending slowdown, but that’s typical for this time of year. Retail footfall in the week to Jan 1st was only 84% of the previous week, with footfall in shopping centres seeing the steepest decline. Card spending was also down in the last week of 2022. The Revolut debit card spending decreased by 12 ppts with retail spending component falling by a material 38 ppts. Meanwhile, CHAPS aggregate card spend index fell by 29 points. However, much of this is consistent with usual post-Christmas spending patterns. It'll be a few more weeks for more "normal" data to come in. But there's plenty of survey data to suggest consumers are set to rein in the spending.

New year, same worries. While the festive period may have ended, businesses' economic challenges linger on. The BICS survey revealed that over a fifth of UK businesses (22%) are still citing energy prices as a primary concern this January, while others are concerned about input price inflation (15%) and falling demand for their goods (14%). With these concerns front of mind, 5% of businesses reported that they expect to make redundancies in the next three months, primarily to reduce staff costs (69%). To add to this backdrop, 1 in 6 businesses were affected by industrial action in November. And as more strikes continue to disrupt the country, it's not quite the fresh start for 2023 we had hoped for.

Business blues. The above numbers make even more sense when you see that UK business leaders in the Decision Maker Panel believe higher interest rates will lower investment by 8% and employment by 2% this year, compared to what would have otherwise happened. This is evident in the easing of recruitment difficulties and expected employment growth a year ahead also weakerned in December. Granted, inflation is expected to come down from 2022, but both the 1-year ahead and 3-year ahead expectation of CPI rose a smidge in December from November. Businesses' own output price inflation expectation remained unchanged and uncertainty about the outlook for price growth remains historically high.

Hot and Cold. The US economy maintained a strong pace of job growth in December, with the unemployment rate falling to 3.5%, matching the pre-pandemic low. Jobs were added at a solid clip in December (223,000) but Federal Reserve officials could draw some solace from a moderation in wage gains. Labour market resilience has raised the concerns that the Fed—which is engaged in its fastest interest rate-increasing cycle since the 1980s as it tries to dampen demand to tame inflation—could lift its target interest rate above the 5.1% peak it projected last month and keep it there for a while.

Bumpy Ride. After China’s volte-face on Covid restriction, all eyes are set on the economic consequences. So what’s the latest indications? As expected, the havoc caused by the spread of the virus has led to continued near-term decline with the composite PMI in December at 48.3, although it rose above November’s figure of 47. The service sector continued to lag at 48.0, but it too also gained over November’s 46.7. On the other hand, the manufacturing PMI fell to 49.0 as Covid disrupted production. At least firms see plenty of room for optimism, which jumped to highest level in months across both sectors. When cases subside, a stronger economic recovery might be in store.