Two weeks in and has the bad news poured in? Well not yet, but there’s plenty to be concerned about. Did the UK end 2022 with a recession? It may have just been averted (not so in NI). But the base case is it has only been delayed. What’s certain is that the cost-of living crisis is far from over, and borrowing costs will rise further before they come down. Businesses and mortgage owners, brace yourselves. The good news is the £600 energy vouchers for local households are in the post. But there’s still a long and bumpy ride left to run.

A Messi release. For all the talk of impending recessions, the UK is hanging in there. GDP was estimated to have risen by 0.1% m/m in November (a 0.2% drop was forecast), with accommodation and food rising by 1.5% from October, the most since June. Part of that was down to the World Cup. So yes, firmly temporary. And there are some depressing looking figures in other places. The manufacturing sector continues to struggle, while wholesale & retail is down 5% y/y. On the flip side, ICT and professional, scientific & technical remain

sources of relative strength. Output in both of are around 10% higher than pre-pandemic. Perhaps the best way to think about the economy is it's effectively stagnating, but with headwinds approaching.

It's official. The jury is out whether the UK economy will flatline or enter recession. Northern Ireland is ahead of the recessionary curve posting two consecutive declines in activity in Q2 and Q3 last year. The two successive quarters of contraction (both -0.3% q/q) in NI's Composite Economic Index (NICEI) – the nearest thing we have to quarterly GDP – signals a 'technical recession'. The overall index in Q3 2022 was up 0.5% y/y and 4% above pre-pandemic levels (Q4-2019). Public sector employment growth is offsetting a more marked decline in private sector activity. The latter has fallen by 0.9% since Q1 2022 with private sector output growth flat year-on-year. Ulster Bank's NI PMI suggests a third successive quarterly decline in Q4. Buckle up!

Steady. Following a significant drop in business performance in Q3 2022, Northern Ireland firms saw conditions stabilise in the fourth quarter. But two in three businesses, according to the NI Chamber's latest survey, stated that demand for their goods and services had fallen. A majority of firms (55%) anticipate their business will grow in 2023 while one third expect contraction. Survey respondents are much less optimistic about the direction of the economy. Less than a fifth of firms expect the local economy to expand whereas over two-thirds have pencilled in a decline. Inflationary pressures driving price increases remain acute. Concern over energy cost pressures is widening to interest rate increases.

Downturn under construction. Survey evidence and official statistics confirm that the local construction sector is front and centre in the current downturn. NISRA's Construction Bulletin revealed a 4.2% fall in the total volume of output between Q2 and Q3 last year. NI's construction output has fallen in five of the last seven quarters with volumes of activity hitting a nine-quarter low and 5% below pre-pandemic levels. The downturn is particularly

marked within housing with activity down almost 15% y/y. Outside of the first lockdown, back in Q2 2020, housing activity plumbed a 7-year low in Q3 2022. Housebuilders should see a significant easing in supply-chain disruption for building materials. But the cost of living crisis and rising interest rates will hit housing affordability and demand.

A tightening grip. The squeeze on incomes in 2023 is well established but a new report from the Resolution Foundation revealed some of the drastic measures people are taking in response. 11% of adults reported being hungry in the last month due to not having enough money to buy food, roughly double the number from three years ago. Around a quarter of adults report using savings to cover daily expenses, up from a fifth previously. The toll on mental wellbeing is clear too with 47% of adults reporting emotional distress. Rarely has a new year dawned with such sobering statistics.

Persistent. Despite falling energy prices, the threat of persistently high rates of inflation continues to loom large in the UK. That’s the verdict of the Bank of England’s Chief Economist – Huw Pill. Higher gas prices, supply-chain bottlenecks and a tight labour market are three key factors that will continue to exert upward pressure on UK prices as firms and workers retain pricing power. Speaking in New York, Pill highlighted the UK is more susceptible to higher rates of inflation than in other advanced economies. For example, the US and Europe possess just two of the three inflationary factors. As a result, UK interest rates may have to stay higher for longer.

Robust, for now. That would be one way to describe the UK labour market, but the trend is toward softer data. December saw a third consecutive drop in permanent placements index which reached 44.5 (vs 46.6 in Nov’22)—signalling the steepest decline since January 2021. High inflation, economic uncertainty and tighter client budgets drove firms to postpone hiring activity to next month. The appetite for temporary staff, which is less affected by long-term employer confidence, is still holding up. But the real test comes this month as we

will find out whether firms deliver on their postponed hiring. Eventually though, a recession and rising borrowing costs may well push firms over the edge with job cuts.

Costly shelter. New Year brings new worries for fixed rate mortgage holders who had been insulated thus far from rising interest rates. But now, more than 1.4m UK households are due to renew their fixed rates in 2023 and will face a higher interest rate (the quoted rate is currently averaging 6%). For context, 57% of these households currently have a fixed rate below 2%. That means an average monthly repayment increase of £250. In contrast, variable rate mortgage holders have already suffered average rate rises to 4.41%, and private renters are also struggling as rental prices grew at the fastest rate in 2022 (4%) since records began in 2016. It’s no surprise now that 4 in 10 adults now worried about the impact of changes in interest rates on their mortgages.

Testing times: While some may view the New Year as a new start, this does not ring true for many UK businesses facing the same consistent challenges as last year. In December, nearly half (48%) of business reported importing challenges in comparison to November. Looking forward to February, 20% reported energy prices as their main concern, followed by inflation (16%) and falling demand (14%). More than a quarter (28%) are facing staff shortages, with over half (56%) of those reporting employees were working increased hours and 40% reporting being unable to meet demands. Ongoing strikes and supply chain disruption continue to add to the challenges faced, making resilience and perseverance as important as ever.

Sticking to their knitting. Central banks’ role in supporting climate goals is hotly debated (in wonkish circles). US Federal Reserve Chair, Jay Powell, weighed-in last week with a warning against mission creep. It’s “essential” for the Fed to maintain a narrow focus on inflation and employment and avoid the “temptation to broaden our scope to address other important social issues” he told a conference. Allowing the institution to become a “climate

policymaker" would risk calling into question central bank independence, making it harder to achieve those core statutory goals. In Powell's words: the Fed will "stick to its knitting".

Reasons to be cheerful, part one. US inflation declined for the 6th consecutive month to 6.5% y/y, the lowest reading in a year. The 0.1% monthly decline in headline CPI was primarily driven by a drop in petrol prices, which dropped 9.4%. The core, however, rose 0.3% over the previous month, reflecting the strength of shelter index (+0.8%). Nevertheless, shelter inflation (housing) will subside this year reflecting the drop in house prices. In turn, core price pressures should retreat. There is a clear sign that the mountain peak of inflation is now behind us and in conjunction with slowing wage growth essentially gives the Fed some breathing room to scale back the sharpest tightening of rates in four decades.

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