Last week saw a plethora of key economic releases, what’s the gist of it? Still a mixed picture. Chinks of light in some areas, but telltale signs of mounting challenges in others. Retail spending was down despite the seasonal boost one would expect from end-of-year holidays, higher rates are crimping demand for credit and dragging down the housing market. Granted, consumer prices are in retreat but too slow for now to actually make a difference on living standards.

Holding up for now. The UK labour market, despite the struggling economy, has managed to stay aloft, the unemployment rate unchanged at 3.7% (NI=2.8%) in November. It seems that businesses are only slowly factoring in the impact of rising borrowing costs and a looming recession. But it’s happening nonetheless. Various surveys such as the KPMG Jobs report and the PMI Employment Index suggest as much. On the other hand, attractive levels of wage growth are pulling people out of inactivity. The unemployment rate looks set to drift up. But will the labour market become a major pain point for the economy? Unlikely for now.

Finally falling? Inflation fell for a second consecutive month in Dec to 10.5%y/y, down from the 40-year high of 11.1% in Oct and 10.7% in Nov. Energy prices have come down and falling commodity and shipping costs are helping too. But that trend is far from uniform. Food prices continued to soar, reaching 16.9% y/y in Dec, the fastest pace in decades. Domestically driven services inflation was up to 6.8%, while core inflation remained unchanged at 6.3%. But at least the rate of increase in core prices is slowing, which should be the precursor to declines further down the road. And despite the stickiness in some areas, the forecast remains that inflation will continue its retreat in coming months. That’s the chink of light.

Limited: The BOE’s latest credit conditions survey shows that lenders tightened their belts in Q4, with a decrease in availability for both secured and unsecured lending to households, and are expected to become even more restrictive in Q1. Overall demand for both secured and unsecured lending decreased in Q4, unsurprisingly, given higher rates, but there’s also little indication that people are turning to credit due to CoL pressures with a further decrease expected in Q1. Defaults are expected to increase across the board in Q1, for both households and corporates of all sizes, suggesting the economic squeeze is not ready to loosen its grip just yet.

Deflating. That’s one way to describe the housing bubble. But it is certainly not popping! Average UK house prices fell 0.3% m/m in Nov (the first in more than a year), bringing the annual growth rate to 10.3% (12.4% in Oct). Cue the impact of rising borrowing costs on the residential property market. Timelier indicators suggest house price growth has slowed sharply over recent months, with Nationwide’s house price index falling for the fourth consecutive month in December, marking the longest period of contraction since the 2008 financial crisis. The Office of Budget Responsibility believe that prices are set for a fall of 10% in over 2023/24, taking them back to 2021 levels. The UK housing market’s customary resilience is facing a stiff test.

New norms and hard times. We’re in the hard yards of January – psychologically, socially, and economically. UK spending is down on the previous week, as are table reservations (by a not small 26 percentage points). All seasonal stuff. Yet while behaviours continue to better mimic pre covid patterns, a gap with the past remains. It’s a gap caused by both new norms and hard times. So, we’re driving less, partly due to reduced need and partly to economise. And job opportunities are narrowing. Online vacancies are down 14% since last year. There’s an icy grip on the weather and the economy.

Ho, ho, oh. Christmas was not kind to UK shopkeepers. Retail sales fell another 1% in December, with non-food sales hit hardest (-2.1%). Why? Affordability concerns remain at the fore, with consumers scaling back purchases in the face of higher prices. Freezing cold weather and widespread strikes contributed too. Postal disruption saw internet sales fall 2.9% last month, driving-down the online sales share to its lowest since March 2020 (25.4%). That rounds off an ‘annus horribilis’ for the retail sector: sales volumes dropped 3% across the whole year. With consumer confidence slipping further in January, a sustained recovery looks some way off.

For a rainy day. Inadequate savings are part and parcel of the general financial insecurity that millions of UK households have been thrust into amid the current cost-of-living crisis. For much of the last four decades, UK has had the lowest savings rate among the G7. There have been many schemes in recent decades to encourage more saving; the Resolution Foundation conclude that the current policies are either poorly targeted, or are too small in scale to achieve a significant broadening in the distribution of household savings. Could that change in the coming months as households cut back spending amid the economic downturn?

Brightening up, but. It wasn’t as bad as feared. China’s economy was stagnant between Q3 and Q4. Not great, but ahead of the more than 1% drop that was expected. It means for 2022 as a whole the economy grew 3%, meagre by China’s standards. The reopening of the economy and some supportive policies for the housing sector should make for a better 2023. Many forecasters have been revising up their growth forecasts, with 5% the latest anticipated pace. But a slower China will become the norm. Data last week confirmed what many suspected – China’s population is in decline. That’ll be a longer-lasting headwind to growth than zero Covid.