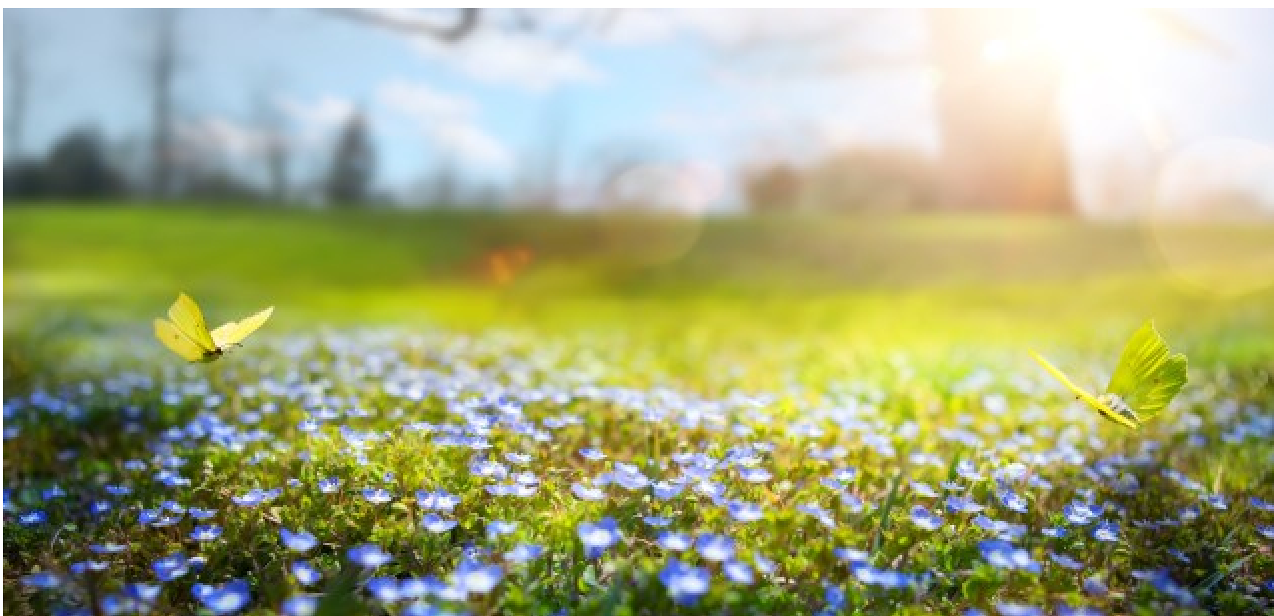
We got a good read of how the UK economy is performing last week. Unemployment is low but the labour market is loosening, price pressures are gradually abating and consumer appetite is diminishing. All reasons that might prompt the MPC to hit the brakes on its programme of rate hikes at its next meeting on 23 March. But there is no immediate respite for Britons; households are still feeling the pinch.



Slacky. The signs of weakness in the UK labour market remain limited, at a surface level at least, as employment numbers rose and the unemployment rate held steady for a third consecutive month at just 3.7%. But firms are already taking some measures as demand softens, be it through lowering the number of hours or giving out less generous bonuses. Some are even moving to initiate redundancies (9.9K to be precise, as recorded in the final week of January). For the MPC, this is a good reason to halt its tightening cycle. But for the time being, strong wage growth should attract more into the workforce. Slack is gradually building up in the labour market.

Step back. Speaking of the tightening cycle, Huw Pill, Bank of England Chief Economist, and member of the MPC, said last week there’s a risk of “over-tightening” if the pace of the

past few months is maintained, which likely rules out another 50bps hike. More telling was his description of the labour market as showing signs of loosening. And the description of tightening to date as “significant” and “commensurate to the challenges to price stability we have been and are facing”, and most of which is yet to be felt in the real economy. Translation? A pause to tightening is firmly an option for the March 23rd meeting, but not a certainty.

Retreating. A key deciding factor for that would be inflation, which fell for a third consecutive month, to 10.1% in January, down from 10.5% in December. That’s 1ppt lower than the 41-year high of 11.1% seen in Oct. The largest contributor was the transport category, which rose 7.6% in the year to Jan, down from a whopping 18.3% y/y jump in Dec. Overall fuel prices rose just 7.7% y/y, vs 11.5% in Dec. But the biggest breather came from core inflation (a measure that strips out more volatile items) which dropped markedly from 6.3% to 5.8%. Finally, domestic price pressures seem to be easing. But while the slowdown is welcome, it brings little immediate relief for UK households; prices are still rising faster than wages. The cost-of-living beast has softened its grip, but the fight is still far from over.

Mind the Gap. Most of Northern Ireland’s labour market headlines continue to move in the right direction. January saw another record high in the number of employees on NI payrolls. Meanwhile there have only been four months when unemployment has been lower than the current rate of 2.5%. Encouragingly, NI has posted the largest rise in HMRC payrolls of all the 12 UK regions over the year to January 2023 and since the pandemic. Worryingly, however, NI has also recorded the lowest rise in median earnings across the UK over both periods. Last month’s 3.9% y/y rise in median earnings compares with a 10.1% annual rise in CPI inflation. That’s a whopping 6.2% fall in real terms. Ouch!!

Smooth out. Against this backdrop, the fact that wholesale gas prices for 2023-24 are down 75% from their summer peak brings little comfort. After all, a typical energy bill is

expected to increase from £2,500 today to £3,000 in April, before falling back to a little below £2,400 from July. This is a result of the Energy Price Guarantee (EPG) increase from April. The Resolution Foundation expects that the Chancellor will delay the increase in next month's Budget for three months to avoid the roller-coaster. But even with this delay, a typical UK household bill in 2023-24 will still be £500 higher than in the previous year.

Finally falling. Official UK house price data has started to show the pressures from surging mortgages rates and squeezed real incomes, with the index slowing to 9.8% y/y in December, from 10.6% in November and prices falling between those two month, albeit by a mere £2k. Timelier measures though suggest that prices have much further to drop this year, with many forecasters pencilling in a 8-10% reduction, taking them back to 2021 levels. But if history is any guide, the housing market has shown surprising resilience in the past which adds greater uncertainty to these projections. Falling mortgage rates and lower energy bills later this year may pave the way for an earlier-than-anticipated recovery.

On the turn. It has been a case of one-way traffic for local residential prices over the last four years or so. But Northern Ireland's residential property prices turned a corner with a 0.5% q/q fall in the fourth quarter of 2022. Despite this blip, the standardised price of a property in Q4 (£175.2k) was 10.2% higher than a year ago (broadly in line with inflation) and still up 25% since the pandemic. Four of NI's 11 local government districts continued to defy gravity. New builds also bucked the wider price trend edging higher albeit by the smallest of margins. Given rising mortgage rates & spiralling energy costs; the lure of a fixer-upper for first-time buyers looks rather less appealing.

Pessimism is building? It is not just housing demand that is falling, supply is too. What with supply chain disruption and the soaring cost of building materials, housebuilders have had more uncertainty and volatility than usual. NI housing starts fell by 10% y/y in Q4 2022 in the weakest fourth quarter in 8 years. Some

6.6k dwellings were started in 2022, that's down 12% y/y and 9% below pre-pandemic levels (2019). Outside of the pandemic low of 2020 (6k units), 2022 was also the weakest year for starts since 2014. This will filter through into fewer completions in due course. Last year saw an 8% y/y fall in finished dwellings – a 6-year low. This trend looks set to continue in 2023.

Small wins. Retail sales volumes in the UK rose by 0.5% m/m in January. Certainly welcome, but it reversed less than half of the 1.2% drop recorded in December and is still 0.5% below the Q4 average. Besides, the largest contribution to growth came from seasonal factors as January promotions bolstered non-store (mainly online) sales by 2%. This was closely followed by a 1.7% monthly rise in fuel sales. Food stores, however, saw a drop in sales volume of 0.5%, as customers continue to be buffeted by rising food prices. Despite the marginal rise in overall sales volume, retail sales remain on a downward trend. In short, January's blip should not be mistaken as the start of a sustained recovery.

Dull and drag. Real-time data also point to sluggish UK economic activity and lacklustre demand. Both the Revolut and CHAPS card spend indicators posted a decrease in the week to 5th Feb, compared with the previous week, while retail footfall was broadly unchanged. And while average fuel prices decreased by one percentage point over this period, demand for fuel per transaction did not change. Transport indicators also reported reduced activity, both in road transport, and ship and cargo categories. Things on the business front were not any rosier either. VAT returns show a net 2% of businesses reported increased turnover in Jan, down from a net 3% in Dec.

Price pressures persist. US inflation eased only fractionally in January, rising 0.5% on the month. The annual CPI rate dipped just 0.1ppt, to 6.4%. Contributors to the stickiness included an uptick in fuel and energy prices, coupled with ongoing food price pressures. At 5.6%, the core inflation rate was similarly stubborn (also down just 0.1ppt). Housing costs

played their part; still rising rapidly despite a slight slowdown in rent growth last month. Taken alongside surprisingly strong retail sales and jobs data, persistent inflation figures suggest the Fed will likely press ahead with raising interest rates when it meets in March.

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