With central banks around the world continuing monetary tightening to tackle persistent inflation, expectations for the Bank of England to follow suit are simmering. But our economic reality is more complicated than that. Inflationary pressures have been coming down recently and the labour market is slowly loosening. However, wage growth pressures are firm and activity data is indicating a recovery. It’s wait and watch for now. Similarly, the jury is out on whether the DUP will embrace The Windsor Framework and return to Stormont.

WTF to TWF. The NI Protocol (NIP) was a headmelter. It was either ‘the best of both worlds’ or simply awful. Yet the full fat NIP was never introduced with the worst aspects of the UK-EU agreement avoided by kicking the can down the road with grace periods. The Windsor Framework (TWF) recognises the many shortcomings of its predecessor and is a significant improvement. Not least in terms of addressing consumer rather than just business concerns. Issues pertaining to parcels, pets, plants and sausages will be dealt with. Meanwhile a green and red lane to reduce checks and paperwork for goods travelling from GB to NI / the EU will be introduced. It will lead to less friction but will not be frictionless. Sunak has called NI ‘the world’s most exciting economic zone’. Will the DUP see it that way?

Undecided. Buoyed up by rising rate expectations in the US and Eurozone, markets remain convinced the MPC’s rate tightening cycle has legs. Markets anticipate a 4.75% peak by year-end, a view that jarred with remarks by Andrew Bailey. Last Wednesday the Governor reiterated the BoE no longer assumed it would hike rates beyond the current 4.0%. Equally, he cautioned against assuming rates had peaked. Since the 2nd February meeting, the Governor noted the “economy is evolving much as we expected it to”. Inflation had been “slightly weaker” while wages and economic activity were “slightly stronger” than anticipated. How these data (& the UK Budget) lands before the 23rd March meeting will be key.

Conflicting. But before we even get there, surveys are already showing that the diverging performance of inflation versus wage growth persisted in February. UK businesses expect costs and inflation to ease but wage pressures to remain elevated. Chief financial officers forecast output prices to increase by 5.4% in the year ahead, down from 5.8% in Jan, registering the lowest reading since Feb’22. Inflation expectations for one-year ahead also fell to 5.9%, from 6.4%. However, wage growth remained strong given the relatively tight labour market, rising by 0.3 ppts to 6.6% in Feb. And businesses plan to raise wages by further 5.7% over the next year, a figure unchanged from the prior survey in January.

Cold and hungry. That’s the plight of many UK households this winter. But that reality seems to have been overlooked in favour of cheering for upbeat disinflation data of late. The harsh reality is this. Households are embattled by 130% increase in gas prices in the year to Jan, because of which around 20% reported that they were occasionally, hardly ever, or never able to keep comfortably warm in the last two weeks of Jan. 5% reported food shortage and being unable to afford buying more. Many had to resort to rationing or even skipping meals, some doing so for more than 14 days in a month. Hence, it is no surprise that a third of households report a negative impact of these experiences on their mental health. Not so upbeat after all.

Old skool rules? Austria and Chicago share hawkish schools of economic thought promoting a direct link between inflation and the money supply. “Inflation is always and everywhere a monetary phenomenon”, Milton Friedman famously quipped. So, note that January’s growth in the UK’s money supply (lending measure) fell to just 0.9% y/y. That’s the slowest pace since early 2014. And at 39,600, mortgage approvals for house purchase are near financial crisis levels. Net lending excluding volatile financial firms was negative. As every wise guy knows, money talks. It’s just no longer shouting.

Run-of-the-mill. An ONS measure of debit card activity showed spending fell by 9% in the last week of February to early March, vs the previous week. Falls were seen across all categories, particularly in dining, and travel and accommodation, both falling by 13%, in line with usual patterns following the upswing in spending due to half-terms and Valentine’s day. Gas prices fell by 2%, and electricity prices remained unchanged, with both following a downward trend since mid-December. While declining prices are welcome, electricity prices are still around three times higher than their pre-pandemic baseline, so it is to no surprise that the number one concern for businesses in March are energy prices (19%), followed by inflation (15.9%) and falling demand (11.6%).

Good or bad? Two years after leaving the EU, the UK is the only G7 country which is yet to recover from Covid. That said, the recent trade data seem to defy the gloomy outlook: after experiencing the biggest fall in openness (exports + imports as a share of GDP) in the G7 in 2021, the UK saw a recovery in 2022 outperforming France and the US. Resolution Foundation analysed the data and concluded that the strength seems to be in services exports, which were helped by growth in trade with affiliated enterprises and large adjustments made to the data for balancing purposes. So, we should be cautious in assuming this indicates the UK has become more competitive in recent months despite Brexit.

Running hot. Multiple further rate hikes in the Eurozone look increasingly like a done deal. Headline inflation remains stubbornly high according to new data, declining just 0.1 ppt to 8.5% in Jan. Weighty food price rises (+15% y/y) are part of the problem. But that’s not all. Core inflation, which strips out volatile food and energy prices, rose 0.3ppt to 5.6% last month. Both goods and services price rises accelerated as companies passed through rising costs to consumers. Meanwhile, there’s little sign of much labour market cooling. The unemployment rate is unchanged at 6.7%, with 900,000 fewer unemployed people than pre-pandemic.

Green shoots. China’s reopening is one of the most talked about themes in the global economy right now and the latest batch of PMI data shows it’s going pretty well. Both the official and Caixin PMI indices rose, as the manufacturing sector reported higher output and demand. On some measures this is strongest confidence from the manufacturing sector for a decade, but its durability is far from guaranteed. China faces headwinds ranging from a troubled domestic property sector to rising trade hostilities with the West. Allowing these green shoots to mature will be a challenge.