Last week’s wage growth and inflation figures suggests that while most battles may be won, the war against inflation is not yet over. But with summer coming to an end and momentum in the economy seemingly fading, there is less wiggle room for the Bank of England, and the trade off between growth and price stability is likely to become trickier.

Wager on wages. The impact of rising borrowing costs is being felt more materially by businesses. We’re seeing a decisive pullback in hiring, particularly for more expensive full-time positions, vacancies are coming down, and staff availability is rising. But why is this not translating to softer wage growth? It seems that firms are just not ready to compromise on the skilled staff they hired with difficulty during past years’ labour market tightness. This is most prominent in the finance sector. And that may be the case for some time, unless economic conditions worsen more than we expect. For now, the metric is a painpoint for the

BoE.

2-1. The Lionesses defeated Australia 3-1, but the Bank of England went down 2-1 with the latest inflation figures. Encouragingly, July’s UK CPI fell to 6.8%y/y, down from 7.9% in June, marking the lowest rate since Russian tanks rolled into Ukraine. But two key measures didn’t go the right way. Core-CPI (excludes food, energy, alcohol & tobacco) remained unchanged at 6.9%. Meanwhile services CPI overtook consumer goods inflation for the first time since April 2021 returning to its recent 31-yr high of 7.4%. Rishi Sunak’s promise to halve the rate of inflation by year-end looks likely. Halving ‘sticky’ core & services inflation will be much trickier with markets now expecting Bank Rate to peak at 6%.

Softly. Never forget inflation has its uses. It can help readjust things that are out of kilter more gently than outright falls. Take house prices. Across the UK they rose by a mild 1.7% in the year to June, to a still considerable (compared to average incomes) £288,000 for a typical home. But compared with the rise in the price level, they declined by over 5%. UK property is expensive, both historically and internationally. So an affordability adjustment softened by inflation may be no bad thing. More positively, timelier measures have softened, like Nationwide’s measure which dropped by 0.2% m/m in July, pushing down y/y growth to -3.9%, the fastest pace of decline since mid-2009.

Resilient. NI’s residential property prices have remained resilient to strong headwinds.Following two quarters of decline, thelocal Residential Property Price Index (RPPI), rebounded with a 1.4% quarterly rise in the three months to June. That’s just over 1% below Q3 2022’s peak and brings the standardised price to £173,898. The annual pace of property price inflation has eased to 2.7% and this marks the slowest rate of growth since before the pandemic (Q4-19). Property crash veterans will be aware prices are still down 23% relative to summer 2007’s freak peak. Adjust for inflation, which has risen by 60%, and prices today are over 50% below what they were 16 years ago.

Shrinking feeling. NI’s residential property price story differs markedly between new and existing dwellings. The former hasn’t yet recorded any price falls in almost 6 years with new build prices rising by 8.5% y/y, five times the rate of the second-hand market. A fall in supply is propping up prices. Completed units fell by 20% y/y in Q2 2023 and are down by a similar margin vis-à-vis the same quarter in 2019. The first six months of the year have seen 1,000 fewer dwellings (-28%) finished than during the same period in 2019. The shrinking supply of new builds’ trend is expected to continue with Q2 2023 recording the fewest number of dwellings started in a decade (outside of lockdowns).

Softening. The number of employees on NI payrolls hit a fresh record high of almost 793k in July with the median wage rising by 7.5% y/y. Outside of these indicators, however, there were some signs of softening in the local labour market. The economic inactivity and unemployment rates ticked up in the three months to June albeit NI’s 2.8% unemployment rate still compares favourably with the UK (4.2%). Meanwhile the employment rate (Apr-Jun) slipped to 71.4%, a three quarter low, and the longer-term trend in proposed redundancies continues to climb. Looks like the labour market sweet spot has passed.

Swings and roundabouts. It seems obvious that the weather should affect our behaviour, but the last two months have shown just how much it matters to UK consumers. June saw temperatures 2.5C higher than their average, 44% more sunshine hours and 32% less rain. The UK consumer celebrated by hitting the shops. But July’s cooler temperatures and higher rainfall had the opposite effect reversing June’s 0.6% rise in sales volumes to a 1.2% fall. How we shopped changed too, with the online share of retail sales up from 26% in June to 27.4% in July as we seemingly all huddled indoors.

Summer is going... School holidays are coming to end and it is not just shown by the lack of sun, but also by consumer behaviour in real-time data. Revolut debit card spending decreased by 8 ppts and overall retail footfall decreased too. Despite children likely dreading the next few months, UK businesses seem to have a positive outlook as 18% of businesses expect their turnover to increase in September after the services sector saw a net 5% increase in turnover in July.

Meagre. The UK economy has been flat-lining in the recent past, so it wasn’t surprising to see some unspectacular productivity growth figures for the second quarter. Output per hour worked grew by 0.1% compared to a year ago—output increased by 0.4% while hours worked increased by 0.3%. Even that growth figure was probably buttressed by the extra coronation holiday. Encouragingly, data showed that economic activity shifted to more productive industries. While productivity growth was strong in construction and manufacturing sector, it was flat for services and saw a big decline for other production sectors.

Warming inequality. We are often worried that the UK housing stock is energy inefficient and therefore expensive to heat. But with a warming climate we will start worrying about overheating in the summer. At current summer temperatures, 20% of homes in England overheat. And the Resolution Foundation predicts that in future this will increase to 36%. As always, the risks are not distributed equally – 54% of the poorest fifth of English families, three-times as many as among the richest fifth (18%), live in homes liable to become too hot. We need to consider how to adapt to higher temperatures. For homes, this means considering heat – as well as cold – during a much-needed retrofit…….

Build them, and it will cool. ….and that’s just one element of a broader approach climate adaptatation. Take the urban heat island effect, for example. By creating more urban greenspace, such as woodland, parks and garden, we can engineer a “park cool island” effect. Effective it is, too, according to a study from Public Health England, reducing surrounding air temperatures by between 1.5 and 3.5 degrees Celsius. And it’s valuable, with a total annual value of £430 million in 2020 according to the Office of National Statistics natural capital accounts (a way of accounting for the economic value of the natural world). For the most part that’s created via improved labour productivity with a smaller proportion coming from reduced air conditioning costs.