The heat continues to come out of the UK economy. Lending is tepid and the housing market is subdued. Meanwhile the labour market also continues to cool, suggesting that the Bank of England’s rate tightening is nearing its end. Things are not too different in the Eurozone and US, while China grapples with faltering growth.

Rocky. There was little change to the amount or flow of money in July, which is supportive of further easing in inflation. While the Bank of England’s rate setters should take comfort, their colleagues in Financial Stability are more alert to the weakness of deposit growth. Households deposited a net £0.4bn in July, a 1.6% y/y rise. Non-financial firms put away a net £1.7bn. Weak by historical standards, but the first positive amount since January. The mortgage market is down, but not out. House purchase approvals were weaker, but lending rose by £0.2bn. Like Rocky Balboa, it’s hard to keep the housing market down.

That's All Folks! Bank Rate may have already peaked! The Bank of England's chief economist, speaking in Cape Town, indicated that he preferred a "Table Mountain" interest rate profile rather than the spikier Swiss Alps alternative characterised by the Matterhorn. The former path suggests rates remain at 5.25% for an extended period (or a 'tabletop') before falling gradually. Markets' expectations are for two more hikes to 5.75% before falling to 4.25% in three years' time. More Matterhorn than Table Mountain. After fourteen successive rate hikes, it remains to be seen whether Huw Pill follows through by voting for no change on 21 September. If he does, will his eight MPC colleagues follow?

Loosening up. As ever, inflation and interest rates remain subject to large uncertainty. But fast-moving indicators show signs of some easing in the UK labour market. Job adverts fell by 1% in the week ending 25th August and are now 7% lower than last year. And 25% more employers are proposing redundancies compared to last year. Businesses are also feeling confident with the proportion of businesses showing some form of concern at 65%, the lowest since March 2022. Wage growth remains hot but if these trends continue, we may see some pressure easing on that front too.

Jobs for all. Lack of work is becoming a rarity, according to the Office for National Statistics. Of the 21 million UK households where someone is aged 16-64, 90.7% had someone in employment, meaning the level of worklessness is down to 9.3%, close to a record low. Working parents have driven some of the biggest changes in these rates. 80% of married or co-habiting mothers now work, up from 75% 5 years ago. The shift for lone parents has been even more dramatic over a longer period. Before 2000 fewer than half of lone parents worked, but today that rate is up at 68% showing how economic shifts have followed societal changes.

Incoming. Northern Ireland's migrant population increased in 2022 following two years of decline due to Brexit and Covid-19. Inward migration outweighed emigration with a net gain of 2,314 individuals. But given that most of the migrants were children they will not be addressing local skills shortages anytime soon. Despite this increase, and a rise in the overall population to 1.91 million, NI’s working-age population fell for the third successive year in 2022. That feat hasn’t occurred since the early 1970s. Back then the issue was a shortage of jobs not labour. Demographic trends, such as an ageing population, point to an increasing shortfall of available workers. Solutions on attracting more migrants from abroad and / or replacing labour with machines (automation) are required sooner rather than later.

Costs of openness. Economic gains from trade often come at the price of greater economic volatility. However, historically in the UK, periods of greater openness have generally coincided with lower variance of output growth. But Russia’s invasion of Ukraine made it clear that it could prove perilous to be reliant on single source imported goods. Meanwhile, the pandemic brought global value chains to its knees due to the dual effect of over-concentration of demand and high demand for goods. All said, an open economy like the UK is a stark illustration of the cost of a sudden contraction in the supply of traded goods. Together with a tight labour market, the squeeze on income brought about by these economic shocks contributed to the sharp rise in domestic inflation and the consequent tightening of monetary policy.

Soft landing ahead? The Fed’s plan to bring inflation under control without a painful spike in unemployment seems to be going well. Unemployment rate ticked up in Aug, to 3.8%, and was driven by a huge jump in labour supply, as participation rose. While the jobless rate is the highest since Feb 2022, it remains low by longer-term standards. In the meantime, labour demand is cooling, albeit gradually. Vacancies dropped to 8.8m in July, from 9.2m in June, still higher than pre-pandemic levels. Payroll rose 187K, above the consensus of 170K. Wage growth is also moderating; average hourly earnings rising by 4.3% y/y in August, down by 0.1 ppts from July. The economy is cooling due to higher borrowing costs, and that gives more reason for Fed to pause this month.

One more. August's steady inflation print for the Eurozone will maintain pressures on the ECB to raise rates once more in September. At 5.3% the headline rate was above the consensus, 5.1%. Granted, core rate fell by 0.2 ppts to 5.3%, in line with the consensus, suggesting that underlying price pressures are easing. But the ECB's latest forecast of inflation averaging 4.7% in Q3 will not be met, as this requires inflation in September to plunge to below 4% – which seems unlikely.

Snowballing. China's manufacturing PMI may have risen to 49.7 in August from 49.3, but it was the fifth straight sub-50 reading. News was little better on the services side; the reading of 51 was weaker than expected. And it's the latter sector in particular where the property sector downturn is making itself felt, prompting a larger than expected rate cut last month to shore up growth. The ripple effects from the unfolding problems in property continue to lap at other areas of the economy, including the exposure across the wealth management industry. Add in a dose of deflation and US-imposed trade and investment restrictions and it's easy to see why concerns around China's faltering economy continue to grow.

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