While the eye of the cost-of-living storm may have passed, the impact is continuing to be felt. Household spending appetite is moderating. Businesses are also turning cautious amid rising rates, holding back on major investment and staffing decisions. With the direction of policy still uncertain, this week’s GDP and labour market releases will be crucial indicators of the next move.

An ease in the squeeze? The squeeze on living standards has been vice-like for many, but the latest analysis from the Resolution Foundation suggests that we could be past the worst. It’s headline of zero real growth in incomes for the next two years is hardly cheery, but it’s a lot better than the monumental falls expected in the teeth of the energy price shock and broader spike in inflation. As ever, policy will be important for determining the relative winners and losers. Something the Chancellor will be contemplating in the run up to his newly announced Autumn Statement on 23rd November.

Penny-pinching. Consumer appetite in the UK is evidently falling. CHAPS card data showed aggregate spending falling 3% in August, driven by all contributors except social spend. Households are also reluctant to make major purchases; car sales weakened in August, more sharply than in July, as car finance becomes more expensive. All that’s not surprising. Over 40% of households paying rent or mortgage reported finding it somewhat or very difficult to do so. Half of the households continue to report a rise in the cost-of-living in the previous month, with 67% responding to it by spending less on non-essentials.

Something for everyone. Are you an inflation dove, convinced it’s fading away? For supporting evidence, look no further than the BoE’s latest survey of business leaders. They too increasingly expect price pressures to abate, expecting CPI will be 4.8% one-year hence, down from 5.4% when asked last month. Or maybe you’re an inflation hawk, sure the problem is entrenched? Business leaders also reckon output price rises are stuck at 7.4% y/y. Reported wage growth is still ticking-up (6.9% in 3m to August) and pay is expected to rise another 5% over the coming year. Good luck to the monetary policymakers making sense of this.

Caution. Although UK businesses are no longer worrying as much about global supply disruptions or industrial actions, they are becoming more cautious about the domestic economic outlook. This is reflected in the increased share of firms considering redundancies over the next 3 months, to 4.0% in late August from 3.7% in mid-June – according to the BICS survey. Reducing staff costs was the key reason, followed by automation. Firms are also in a more favourable bargaining position now; share of those facing worker shortages has fallen from 28.2% at the start of the year to 26.4% in the latest period.

Risky Business. Rising interest rates don’t just increase debt servicing costs but also the cost of raising capital. The future is more expensive in today’s cash terms, and therefore investors are going to want the prospect of positive returns a little earlier. So it’s no

surprise that UK M&A activity is starting to soften. Foreign investment in UK firms fell £4.4bn to £7.4bn in Q2 (vs. Q1). UK acquisitions of foreign firms also fell, by £0.6bn to £2.3bn, while UK-to-UK acquisitions headed south too (by 0.3% to £2.4bn). Focusing on value is no bad thing, but lower investment usually is.

Labour market institutions. The UK / NI labour markets boast high employment and a generous minimum wage, but they still suffer from anaemic real wage growth and pervasive job insecurity. In their new briefing note, Resolution Foundation argues that stronger regulation alone cannot fix these woes and the focus should be on stronger labour market institutions. Trade unions, once mighty, have seen membership dwindle and require new rules. But fresh thinking is also required. "Good Work Agreements" in afflicted sectors (e.g., social care), brokered by employers and workers representatives, could lift standards through collective bargaining. If well-designed, these pacts could complement national rules and resuscitate sectoral relations.

Inflation, deflation. China's experience of inflation remains in stark contrast to the UK's (and many others). Consumer prices were a mere 0.1% higher in August compard to the same month last year (imagine!), after falling 0.3% in July. Core inflation, which excluded food and fuel prices, remained unchanged at 0.8%. Producer prices are still in deflationary territory, falling 3.0% y/y after a 4.4% drop in July. All symptomatic of weak demand. And with problems in the property sector – which accounts for about a quarter of economic activity – and the plunge in exports, it's no surprise Chinese authorities responded with a fresh batch of stimulus measures, including lower mortgage rates and relaxation in loan criteria. Will it be enough?

Staying put. Government debt loads have ballooned in recent years and for better or worse, they're here to stay, according to Barry Eichengreen in a new study. Simply put, lowering them is difficult. Belt-tightening, or running government budget surpluses, is one

route. These have been the exception to the rule over the past half century and aren't on the political cards right now. Faster growth is another route. Nice to imagine, difficult to engineer. Generative AI is the current hope. But history suggest the reorganization required to capitalize on it may take a decade or more. Inflation isn't a sustainable route either, according to Eichengreen. If it's unanticipated it might. While capping interest rates and related policies – financial repression – is not as easy as it was in the post-WW2 era. Financial liberalisation of recent decades is the reason.

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