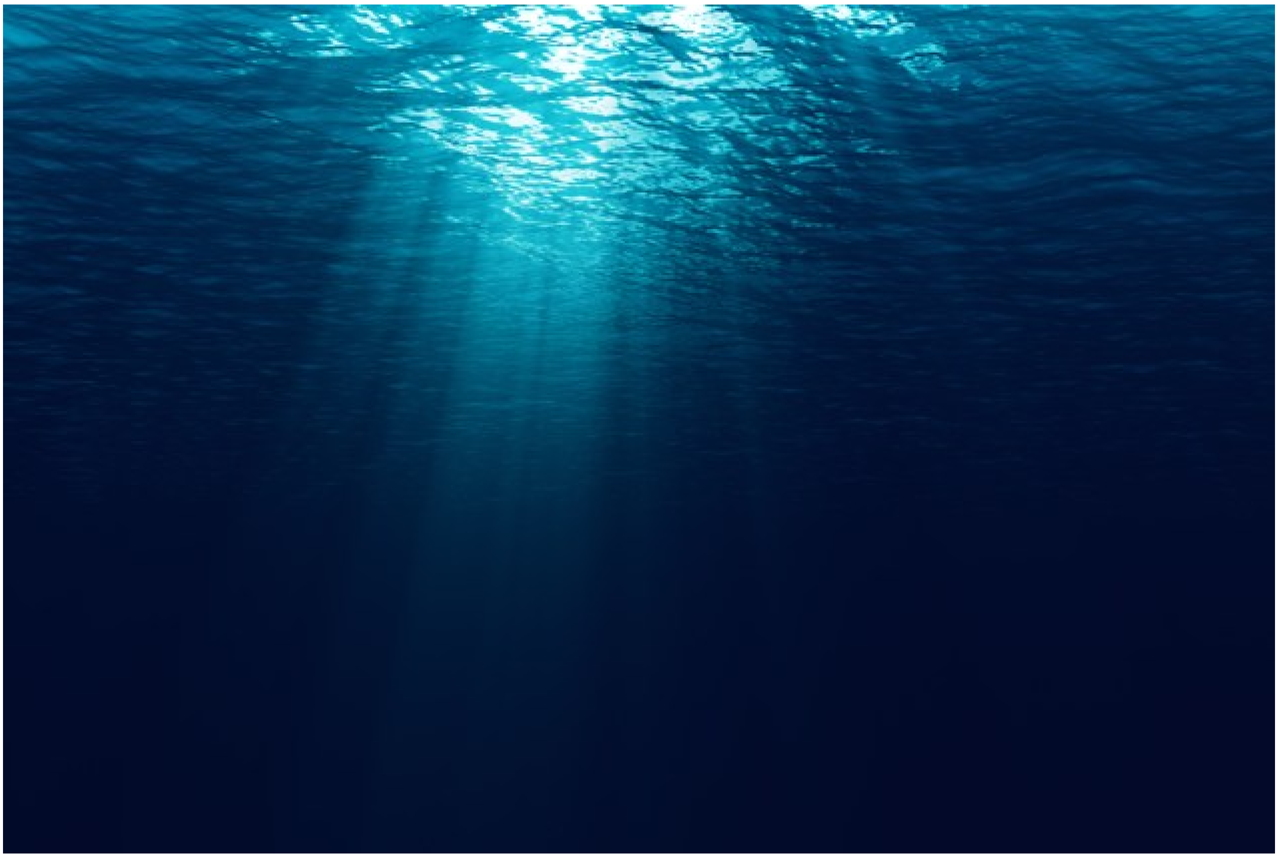
While the US appears to be enjoying 'immaculate disinflation', moving beyond price pressures without suffering a recession, indicators in the UK are less encouraging. Business activity seems to be contracting and unemployment inching up. Pessimism could be premature, though. Statistical difficulties are making it harder to follow these developments, and the economy also has some positive stories to tell. The Bank of England interest rate decision and inflation forecast this week will help shape the mood as winter approaches.



perfectly seamless of deep blue ocean waves from underwater background with micro particles flowing, light rays shining through

Contractionary. UK Flash PMIs still paint a gloomy picture. The composite index stood in October at 48.6 and was little changed compared to the September reading and consensus, 48.5. Services activity was affected by subdued consumer confidence, the impact of elevated borrowing costs, and weak client demand across the real estate sector, though pockets of growth were seen in the technology sector. Even so, services PMI remained in contraction territory at 49.2. No respite from manufacturing either as its output index contracted for the eighth consecutive month. Though real incomes are set to rise in Q4 after flatlining in Q3, it is uncertain whether this will translate to a commensurate jump in consumption.

Keeping count. The three-month-average unemployment inched up to 4.2% in August, relative to 4.0% in the previous quarter. That's consistent with other signs of emerging labour market slack. More notably raised, though, were the eyebrows of economists. Estimates of unemployment are usually based on information from the Labour Force Survey, but a low response rate has forced government statisticians to switch temporarily to an alternative methodology. The latest figure relies on PAYE data and the claimant count. Not ideal to introduce new uncertainty to monetary policy in a period of high inflation, but the implications will take time to digest.

Startup nation. Businesses have had a turbulent time over the recent years, coping with Covid, the soaring cost of energy, high inflation and now high interest rates. But that doesn't seem to have dented entrepreneurial spirit and if anything, the latest business demography statistics suggest that resilience may even be better than expected. Over 78,000 businesses were created in Q3, up a very spritely 15% on a year ago. Many businesses also ceased to operate, of course, but at 69,000 that was fewer than the openings and 14% lower than in 2022. The high turnover of hotels and restaurants helped boost the overall numbers, alongside a strong showing from professional services and business admin firms. Perhaps all these new firms will help offset a little overall weakening demand for labour.

Turning off the gas. The two main concerns reported by businesses for the month ahead were falling consumer demand and energy prices, with the level of concern for both increasing from the previous month. Consumer spending appears broadly flat, with total credit & debit card spending rising ever so slightly last week (up 2%), back to the same level as last October. What is more, relief over recent declines in household energy bills may be blunted by the fact that wholesale gas and electricity costs are creeping up: System Average Price (SAP) are at the highest point since mid-March 2023. A touch of gloom, then, for businesses in the near-term outlook as the nights draw in.

Last hope. The International Energy Agency published its World Energy Outlook exploring future energy transition scenarios. The momentum behind clean energy transitions is now sufficient for global demand for fossil fuels to peak before 2030 in all three scenarios, although following the rates of decline differ substantially. In the Stated policy scenario emissions remain high enough to result in around 2.4 °C warming by 2100. However, there is still hope – Net Zero scenario provides a pathway to limiting global warming to 1.5 °C. In IEA’s assessment it is very difficult – but remains open. How rapidly solar and electrification expand will shape different outcomes across the scenarios.

North Atlantic Drift. The parting of the economic waves between the eurozone and the US continued in October. While US firms reported a slight increase in output (up to 51.0 from September’s 50.2), the EZ downturn accelerated. Firms’ reported Output ‘Flash’ PMI sunk to 46.5 (47.2 in Sep.), the sharpest fall in over a decade, excluding the pandemic. The decline in EZ New Orders is the sharpest since 2009 (again excluding 2020). The EZ’s manufacturing downturn remains particularly acute (43.1, unchanged). This again contrast with modest increase reported by US manufacturers (51.1, vs 50.8). It’s squeaky bum time across eurozone finance ministries.

Greek drama. The European Central Bank kept its benchmark deposit rate unchanged, at 4%, in a break from ten back-to-back interest rate hikes. That much was widely expected. But could trouble be waiting in the wings? Speaking from Athens, ECB President Christine

Lagarde admitted the economy is now feeling the force of past rate rises, noting growth is “likely to remain weak over the remainder of the year”. With Eurozone inflation expected to drop below 4% this week, and recession risks rising, how long can the ECB hold the line that it’s “totally premature” to start discussing cutting rates from restrictive levels?

Style. Meanwhile, the US economy continues to shake off higher rates with GDP rising by a 4.9% annualised pace in Q3, the fastest pace in almost two years. And it certainly wasn’t a cruel summer for US consumers, with personal spending rising 4%, helped by Taylor Swift’s and Beyonce’s tours and “Barbenheimer”. But temporary factors were at play. Inventories contributed 1.3 ppts to headline growth. And there’s headwinds too: surging mortgage rates, higher oil prices, a softer job market and the resumption of student loan repayments after a three-year hiatus. So, if you expect the performance to continue into Q3 you need to calm down.

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