Having spent most of 2022 and 2023 hiking interest rates, the central banks in London, Washington and Frankfurt are now taking a breather and scanning the horizon. Uncertainties abound. How much of the impact of raising rates has materialised? How are workers, firms and consumers behaving? Monetary policymakers, having been wrong-footed by inflation, are keen to avoid appearing complacent. Talk of cutting rates is firmly dismissed, but markets expect cuts in 2024. Though inflation should ease, steering the economy could get even harder.

Staying Put. The Bank of England has decided to keep interest rates on hold at 5.25% for the second successive meeting and warned that monetary policy will need to stay restrictive for "an extended period of time" despite a bleak economic outlook. The MPC voted six to three to keep its benchmark rate unchanged, in line with expectations. BoE stated that growth would remain "well below historical averages" over the medium term, even as its

forecasts signalled that inflation is set to remain more persistent than it previously expected. The central bank is treading a delicate line as it seeks to beat inflation while not pushing a weakening UK economy into an outright recession in 2024.

Facing the future. A lot has happened since the MPC's forecast in August. Market expectations of average policy interest rates over the next three years have come down by more than half a percentage point. The labour market has been cooling (statistical uncertainties notwithstanding). Headlines from the Middle East have had an impact on consumer confidence and oil prices. Updating its outlook, the Bank has evolved from a gloomy to a slightly gloomier view: UK stagnation in 2024 and sluggish growth after that, but with inflation returning to the 2% target by the end of 2025.

No worries. With the peak Bank Rate conceivably being reached, one would think rising borrowing costs would be the greatest concern for UK businesses. After all, UK firms reported that the average rate on their borrowing (both bank and market based) in Oct was 6.7%, +0.1 ppts higher than in September. But the top 3 concerns for businesses in Nov continue to be: falling demand for their goods (17.9%), energy prices (17.8%), and inflation (12.2%). In fact, those reporting interest rates as a concern fell 1.4 ppts from 7.2% in the previous month. But as inflation continues to ease, so do concerns around it. The average annual inflation in output prices was 6.1% in the 3 months to October, down by 0.3 ppts from September.

Stalling. The creeping increases in labour market slack has contributed to the decision to hold rates steady. The number of firms notifying employees of potential redundancies over the past four weeks climbed to 19% higher than last year, with 42% more jobs potentially at risk. Recruitment activity is lacklustre: online job adverts were unchanged on the week, with 5% fewer vacancies listed than at this point in 2022. Consumer demand seems moribund too. Total spending on credit and debit cards was flat. Despite this, just 63% of

businesses cite some form of concern for November; a new joint low.

Cashless economy. Where has all the money gone? A common refrain when returning from holiday, but rarer than hens’ teeth for the whole economy. Net money fell by £31.5bn in September, certainly the sharpest fall since current UK records began in 1998 and perhaps since the end of the First World War. While driven by non-bank financial firms, both non-financial firms and households withdrew cash (£1.7bn and £0.7bn). The flow from instant access to fixed savings continued, especially to NS&I, net £7.7bn, with households taking full advantage of the briefly offered 6.2% bond. On rates, the effective mortgage rate broke 5% and net mortgage borrowing fell £0.9bn. Meanwhile, UK firms borrowed a net £5.3bn.

Soft landing? It looks like the Fed is on course to achieve what everyone thought was impossible – (almost) taming inflation without sending the economy into a recession. At its latest meeting last week, the FOMC unanimously voted to keep interest rates unchanged for the second consecutive time. This comes amid general signs of strength for the US economy – inflation is down to 3.7%, unemployment is historically low (3.9% up 0.1%) and GDP is growing at the fast test rate in almost 2 years (4.9% in annual terms). And the dovish mood produced the biggest two-day fall in 10-year Treasury yields since the US banking crisis of early March. It’s all good news, for now.

Job done? Eurozone inflation dropped to just 2.9% in October, down from 4.3% the previous month – mostly thanks to falling energy prices and lower food inflation. Core inflation remains a tad stickier at 4.2%. Meanwhile, new figures show the Eurozone economy teetering on the brink of a shallow recession – GDP declined 0.1% in Q3 according to flash estimates. Germany, the bloc’s largest economy, recorded an equally weak performance. Amidst the stagnation, the unemployment rate ticked up 0.1pts to 6.5%. With Eurozone inflation now at its lowest for over two years, we’ve *surely* now seen peak interest rates in the single currency zone?

Fragile. China’s manufacturing activity as measured by official PMI fell unexpectedly to 49.5 in October, from 50.2 in September. The downside surprise points to a fragile economic recovery for the world’s second largest economy. The National Bureau of Statistics argued that seasonal factors were the main driver of the contraction. The timing of an 8-day national holiday means fewer working days in October, leading to weaker demand and disrupted production. New orders and the production index were the main drivers of the poor reading for the headline PMI. What’s more, China’s non-manufacturing PMI also fell in October, signalling a slowdown in the country’s services sector. Despite the better than expected third quarter of GDP, overall, economic recovery is losing momentum, and the latest weaker figures reinforce the need for more fiscal stimulus.

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