

On the UK economy, take your pick. Pessimists emphasise stagnation, high inflation, and a weakening labour market, while optimists see resilience, gradual disinflation and signs that monetary policy is working. But in the background is an uncomfortable feeling that we have grown used to low expectations. Headlines this week will likely announce a fall in inflation, boosting the national mood, but we will need further good news to feel confident of a better future.



Doughnut. Hopes of a stronger recovery were dashed again. UK GDP growth ground to a complete halt in the third quarter. A big fat round 0%. That's down from 0.2% in Q2 and suggest that only a boost from volatile components - a narrowing trade deficit and restocking inventories - stopped the economy from contracting. Unusually strong Q2 business investment reverted to more normal levels (-4.2%). Household spending declined too (-0.4%), contributing to a 0.7% dip in consumer-facing services activity. For everyone

fed-up with doughnuts, rising household incomes may soon provide a sweet treat. Wages and salaries grew 1.4% in Q3, easily surpassing price growth, and coming quarters should bring more of the same.

Persistent. Though monetary tightening has most likely come to an end, pay growth will remain a pain point for BoE policymakers for quite some time. Average pay continued to rise sharply in the start of Q4, according to the KPMG/REC Jobs survey, as recruiters cited competition for suitably skilled workers and cost of living pressures as the key reasons. Even as the survey showed staff availability expanding sharply in October, while staff placements continued to drop. More concrete data on wages and prices awaited this week but inflation risks remain skewed to the upside.

Feeling the squeeze. From a macro perspective the UK outlook for household finances has improved since wages are growing faster than prices and employment remains high. But data showing how many direct debit payments are missed tells a different story. October saw the highest failure rate this year, 20% higher than the same month a year ago, as people struggled to balance their budgets. Increases in failure were driven by utility bills, loan repayments and fitness subscription categories. So whilst the price cap on gas and electricity bills might be falling, this winter looks to be another tight one for many.

HS whooo? Taxation, in an aphorism now attributed to 18th century French economist Turgot, "is the art of plucking the goose without making it squeal". Monetary policy is similar. How to reduce inflation by squeezing demand without committing murder by strangulation. Has the Bank of England gone too far? Further weakening in construction hints so. October's PMI reading of 45.6, albeit an improvement on September's 45, is low. The second lowest since lockdown. House building crumbled for the 11th successive month, to a dismal 38.5. Home-ownership dreams remain elusive, as does wider sector optimism. Although unquoted, the spectre from decapitating HS2 hovers portentously.

Retirement dilemma. New research by Institute for Fiscal Studies highlights growing differences, with retirement linked to wealth. Twenty years ago, early retirement rates were similar across all income groups – 20% for poorest fifth vs 28% for richest fifth. By 2018–19, only 7% of the poorest fifth were retired, while for the wealthiest fifth it was still 24%. Wealthier people are disproportionately likely to be in paid work in their early 70s. The employment rate among the richest fifth (15%) is over a third higher compared with the middle fifth and 2.5 times that of the poorest fifth. Conversely, 39% of the poorest fifth aged 55–64 were out of the labour force (4x that of the top and middle), increasingly due to ill-health.

Changing patterns. The pandemic has left a mark on many aspects of our behaviour including consumer card spending. Average spend per cardholder rose 17% between June 2019 and June 2023. CPI increased by 22% during this period, but is not directly comparable, due to different composition. Face-to-face transactions plunged during lockdowns but largely recovered, except in major cities like London. Meanwhile online spending spiked and settled at higher levels, with the February '23 level 20% higher than the February '20 one. Food and grocery spending rose during lockdowns and remains elevated amid inflation. Overall, the crisis sped up shifts towards online commerce and budget-conscious grocery shopping.

Systemic stability. Globalisation may not be as fashionable as it used to be, but this week the BoE Governor, Andrew Bailey, highlighted the value of international trade in financial services. Addressing an influential audience in Dublin (a city known for outward-looking economics), Bailey discussed the risks of fragmentation and the need for regulators in different jurisdictions to work together. Clearing houses in London, for instance, provide the global public good of payments infrastructure, but are located and regulated in the UK. To enjoy both efficiency and stability, effective cross-border cooperation is crucial. But is it achievable?

Ease off. In recent weeks markets have been pricing in more rate cuts through 2024, in effect easing financial conditions. That's problematic for central banks when inflation, although in retreat, is not yet back to target. In what is likely to be customary commentary until there are clearer signs that the inflation beast has been slain, Fed Chair Powell stated that "if it becomes appropriate to tighten policy further, we will not hesitate to do so." He also flagged that the bank is going to attempt to establish the degree to which pre-pandemic structural factors pushing down on rates still persist, as part of a review of the Fed's policy framework. A thorny question, yes. But one many central banks will be grappling with in coming years.

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