Monetary tightening is a harsh remedy, but it is reassuring to see evidence that the process is working. The latest UK labour market, house price and retail sales numbers suggest that high interest rates have been cooling demand. Most importantly, inflation has fallen sharply. This week the Chancellor will set out new fiscal plans. Disinflation may give him scope to argue that the economy is heading in the right direction, even while tax and spending options remain unenviable.

More than halved. UK annual inflation fell to 4.6% in October vs. 6.7% in September and a peak of 11.1% last year. disinflation was widely expected as last year's energy price cap hike fell out of the calculation window. But encouragingly, the print also undershot the consensus of 4.7%. Core inflation at 5.7% and services inflation at 6.6% also surprised to the downside. This release, along with the labour market data, should reassure the MPC, making the start of the easing next year more likely. However, expect the MPC to keep a poker face until they have conclusive proof that inflationary pressures have been extinguished.

More of the same. Slack continues to form in the labour market, as firms facing tighter budgets are rationalising their hiring decisions. Vacancies are falling and the unemployment rate is already at the MPC's equilibrium level (though the latest print is based on experimental methods – take it with a pinch of salt!). While the impact on annual wage growth still seems lagged, a closer look reveals early signs of waning momentum. In monthly terms, regular pay growth fell in the three months to September. So it is likely only a matter of time until we see wage growth come down in yearly terms too.

Squeeze over. NI's labour market performance continues to raise economists' eyebrows. Last month saw another record high in the number of employees (797.4k) on HMRC payrolls. The peak was called months ago but the statistics aren't heeding the predictions. Meanwhile the unemployment rate hit a new record low of 2.1% in the three months to September. That's half the UK's rate but just don't mention economic inactivity. Clearly NI is at full employment – anyone who wants a job can get one. The key source of angst has been the squeeze on real earnings. Good news though. Median earnings growth of NI employees in October (6.0% y/y) outpaced CPI inflation (4.6%) for the first time since March 2022.

Retail Snails. November's a funny time of year. With the leaves already goldened and gone it's a period of waiting. And UK retailers continue to wait for spending salvation. The volume of sales fell for the second consecutive month in October, by 0.3%, following a revised 1.1% decline in September. Shoppers shunned household goods and clothes shops (-1.1% & -0.9%). We're driving less. Spending at petrol stations fell 2%. While wet weather plays a part (non-store sales rose by 0.8%), we're still spending less than pre-pandemic. So, despite inflation's deceleration, cost of living challenges remain. Retailers will need to remain patient.

Feeling the squeeze. Inflation may have halved, meeting one of the Prime Minister's aims, but there’s still plenty of squeeze in the system ahead of the Autumn Statement. 64% of people say they’re spending less on discretionary items, whilst 41% say they’re spending less on food and essentials. No surprise that retail sales have been weak. What somewhat confounds expectations is that 35% of people paying rent or a mortgage report finding it somewhat or very difficult to make these payments, a level broadly unchanged from a year ago, despite record rent increases and steep payment jumps for those who have remortgaged. Higher than expected income growth may help explain how that figure hasn’t gone worse.

Slowing, slowing, gone. As the discomfort of higher mortgage rates has been felt by homebuyers across the land, housing markets have suffered. UK house price ‘growth’ fell into negative territory (-0.1% y/y) in September. For the first time in eleven years. It’s been a long while coming but a 0.5% m/m drop in September was the final straw. As ever, the picture varies by geography. Wales is experiencing the greatest house price declines (-2.7%), after chalking up the biggest pandemic-era gains. After that it’s Southern regions of the country, with poorer housing affordability, experiencing the largest dip, whereas Scotland leads the way (+2.5%).

Defying gravity? Local residential property prices have been defying the headwind of higher interest rates. NI’s Residential Property Price Index (RPPI) rose by 3.1% between the second and third quarter of 2023, taking the index to its highest since Q2 2008 (£179,530). The cumulative rise in house prices since the pandemic has been an impressive 28%. Though they lag food prices (+29%) over the same period. Despite the surge, residential prices remain 24% below their ‘freak peak’ of sixteen years ago, and annual rates of house price inflation have slowed to just 2.1% in Q3 2023 –the slowest annual increase in a decade and below the rate of consumer price inflation. So, whilst house prices are, for now, defying the gravitational pull of higher interest rates, in real terms, residential property is actually getting cheaper!

Supply crisis building. One of the main things supporting local house prices is the continuing decline in housing supply. The three months to September was the weakest third quarter in a decade when it comes to the number of completed dwellings (1,256). Builders have finished just 3,889 this year to date. That’s 29% below the corresponding period in 2019 and represents the second lowest Q1-Q3 on record. The outlook is for supply to be squeezed further. Local builders recorded a 25% drop in housing starts during Q3 relative to the same period in 2019. Three-quarters of the way through 2023 and NI housing starts (4,195) aren’t much higher than the lows of 2012 & 2013. A ‘lack of supply’ crisis is very much under construction.

Hollowing out. Since 1993, according to a new Institute for Fiscal Studies report, middle-paying manufacturing jobs have declined (-12%), especially in the North and Midlands, while low-paying services (+14%) and high-paying professional jobs (+95%) have grown strongly. However, these high-paying jobs are concentrated in London and other big cities, not smaller towns. This means many graduates outside London are underemployed in non-graduate roles. The share of graduates working in graduate jobs has declined nearly everywhere, with the notable exception of London. The group most negatively affected by patterns of occupational change may not be low-skilled workers outside of London, but rather graduates from poorer backgrounds unable to access graduate jobs due to the costs of moving.

Ages apart. Baby boomers and millennials are separated by a few decades, but their financial experiences have been very different. Scarcity of housing, the tax implications of an ageing population, a financial crisis, productivity stagnation and inflation have been shaping the early adulthood of those born in the 80s and 90s. In its latest ‘Intergenerational Audit’, the Resolution Foundation lays out the data. Between 1989 and 2013, for example, UK home ownership rates for young adults plunged from 23% to 8%. The numbers are a sobering reminder of the urgency of improving the economy, not least to hold the family together.

Immaculate disinflation. While the UK trumpets a ‘four handle’ on inflation, the US can boast a ‘three handle’. Headline inflation fell to 3.2% in October, from 3.7% in September. The annual rate of core inflation may still be 4%, but monthly moves are giving some cause for confidence that the heat is receding. Having risen just 0.2% on the month, it translates to a 2.8% annualised pace. That’s not far from the Fed’s 2% target. It’s supportive to views that rates are sufficiently restrictive, and the Fed is done hiking. In fact, markets are pricing in four 25bps cuts in rates through 2024.