

The squeeze intensifies

Surging UK inflation means consumers are cutting back



Source: iStock

UK wage growth is now falling short of inflation...

A cocktail of above-target inflation, a fall in wage growth and a slowdown in employment came as more bad news for consumers this week.

At 2.3%, inflation is now running faster than wage growth, which means that disposable incomes are starting to fall. Evidence from this week's sharp decline in British Retail Consortium spending data suggests that consumers are becoming more cautious.

At the same time, the gradual pick-up in political noise from both the UK and EU is keeping uncertainty elevated. The EU's negotiation principle of "nothing can be agreed until everything is agreed" means that we are unlikely to get much clarity on a future trade deal for some time. That is likely to keep investment subdued.

For those reasons, we expect the Bank of England to continue to "look through" rising inflation and focus instead on the uncertain growth outlook.

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