UK inflation spikes to ten year high on energy costs

Rising consumer prices ramp up cost of living

LONDON: British inflation spiked close to a ten-year high in October on increased energy bills and resurgent post-lockdown demand, data showed yesterday, sparking talk of a pre-Christmas interest rate hike.

The annual rate jumped to 4.2 percent, the highest level since November 2011, the Office for National Statistics said.

That followed 3.1 percent in September and was more than double the Bank of England's 2.0-percent target. In reaction, the pound jumped against the euro and dollar as traders priced in a December interest rate hike from the BoE.

The data "now makes it odds-on that all the pre-Christmas headlines will be of the Bank of England steals Christmas variety, if they do bite the bullet and belatedly nudge rates higher", said CMC Markets analyst Michael Hewson.

'Odds on' rate hike

Rising consumer prices ramp up the cost of living, especially when wages fail to keep pace. The data "makes for uncomfortable reading and goes to show the punishing effects of higher energy and food prices on family finances," said Russ Mould, investment director at AJ Bell.

"It almost certainly means the Bank of England will raise interest rates soon, potentially as soon as next month," he added. Inflation leapt on higher prices for domestic electricity and gas, as well as motor fuel which faced shortages, the ONS said. Second-hand car prices are surging as a worldwide semiconductor shortage dents new vehicle production.

A global supply crunch across various sectors and the soaring cost of raw materials are also fuelling inflationary pressures."Costs of goods produced by factories and the price of raw materials have also risen substantially and are now at their highest rates for at least 10 years," said ONS chief economist Grant Fitzner.

The BoE had this month kept its key interest rate at a record-low 0.1 percent, but flagged a likely hike in the coming months to dampen inflation.As countries reopen from pandemic lockdowns, businesses are struggling to meet demand for goods and services, sending prices soaring. Markets had expected the BoE to raise its main rate in November for the first time in more than three years.

Central banks at odds

The BoE decision to sit tight contrasted with the US Federal Reserve, which is tightening monetary policy as growth recovers and inflation spike

US inflation had rocketed to a 30-year high of 6.2 percent in October.

Meanwhile the European Central Bank is sticking to easy money for now. ECB President Christine Lagarde on Monday said she would not "venture" into speculation over interest rate rises in 2023 amid pressure for the bank to define its response to high inflation.

But BoE Governor Andrew Bailey on Monday expressed growing unease over spiking prices. "I'm very uneasy about the inflation situation — I want to be very clear on that," Bailey told a committee of lawmakers.

LONDON: File photo shows a sign displays the price per litre of petrol and diesel fuels, outside a filling station in Lower Kingswood. British inflation spiked close to a decade-high in October partly on higher energy bills and resurgent post-lockdown demand. —AFP

"It is not of course where we wanted to be, to have inflation above target," he added. "Confirmation that inflation is moving further away from its target may seal the Bank of England's resolve to raise rates in December," said KPMG UK economist Yael Selfin. — AFP

UK PM faces backlash over rail plan

LONDON: British Prime Minister Boris Johnson is facing a backlash after reports that his government will today scale back a new high-speed railway line in northern England. Voters in the traditionally Labour-supporting region switched in their droves to Johnson's Conservatives at the last general election in 2019, giving him a landslide win.

As well as Johnson's promises on delivering Brexit, they were also swayed by promises of new infrastructure, including better east-west transport links. But British media on Tuesday said Transport Secretary Grant Shapps will announce that a planned section of the HS2 line between central England and Leeds will no longer go ahead.

Ballooning costs have been blamed as the Treasury looks to tighten its belt after having to shelve out billions in public money for support during the coronavirus pandemic. In a warning from the former so-called "Red Wall" seats in the north, several regional dailies carried the same front page, parodying the film "Trainspotting".

"Deliver what you promised," titles from The Chronicle in Newcastle, northeast England, to the Manchester Evening News, in the northwest, said. "Choose the North. Choose jobs. Choose to finally keep your rail promises." Johnson's spokesman told reporters the government remained "fully committed to strengthening the rail links in our cities, across the Midlands and the North."

Improving transport links was "an absolute priority" and a way to deliver Johnson's pledge to "level up" economic disparities between the north and London and the southeast.

'Serious betrayal'

But MPs and senior public figures from northern constituencies warned that anything less than a full implementation of the government's pledge would be badly received, risking Johnson a loss in crucial support. "If levelling up is a serious policy, the government has to deliver NPR (Northern Powerhouse Rail)," said the Labour mayor of the Liverpool city region, Steve Rotheram.

Not to do so would be a "serious betrayal", he added. Johnson was still committed to the project last month, promising at his Conservative party annual conference: "We will do Northern Powerhouse Rail, we will link up the cities of the Midlands and the North."

The Department for Transport refused to comment on speculation about the contents of today's Integrated Rail Plan. Even without the Midlands to Leeds section of the upgrade, HS2 is controversial, not least because of its spiralling cost, currently estimated at more than £100 billion ($134 billion, 118 billion euros).

Environmental campaigners have mounted regular protests at construction sites, arguing it will have little impact on government emissions targets, and destroy swathes of countryside. Other critics maintain the money would be better spent improving connectivity between densely populated northern cities, rather than a modest cut in journey times to London. HS1 links London with the Channel Tunnel that connects the UK to France. — AFP

Yellen warns US could again hit debt limit

WASHINGTON: The US government may run out of money by December 15, Treasury Secretary Janet Yellen warned Tuesday in a letter encouraging lawmakers to raise the country's debt limit to avoid a default.

Democrats and Republicans in Washington have squabbled in recent months over raising the legal limit on how much debt the United States can accumulate. In October, they came within days of hitting the ceiling before agreeing to a $480 billion stop-gap hike, which Yellen said would keep the government running until December 3.

In a letter to House Speaker Nancy Pelosi, the Treasury secretary extended her prediction for when the deadline would be hit by about two weeks. But she warned: "there are scenarios in which Treasury would be left with insufficient remaining resources to continue to finance the operations of the US government beyond this date."

Janet Yellen

"To ensure the full faith and credit of the United States, it is critical that Congress raise or suspend the debt limit as soon as possible," Yellen wrote. The latest imbroglio comes in the midst of long-running negotiations over Democratic President Joe Biden's "Build Back Better" plan to invest $1.85 trillion in American social social services and education.

The Republican minority in Congress opposes the measure, and has said it will not agree to debt ceiling increases to pay for it, although much of the debt the US government takes on funds outlays approved by prior Democratic and Republican administrations. In October, they argued that Democrats who lead the House and Senate should raise the limit unilaterally, before eventually dropping their blockade to allow passage of the temporary increase.

The United States has never defaulted on its debt and its Treasury bonds play a major role in the global financial system, but economists warn a failure to raise the ceiling would cause a massive financial crisis. — AFP

Turkey's troubled lira accelerates record slide

ISTANBUL: The Turkish lira suffered one of its biggest falls of the year on Tuesday and hit new historic lows to cement its status as the year's worst-performing emerging market currency. The lira fell by nearly four percent to 10.36 to the dollar before clawing back some of its losses ahead of a meeting on Thursday at which the central bank is expected to lower interest rates for the third successive month.

Turkey's nominally-independent bank has bowed to incessant pressure from President Recep Tayyip Erdogan to drive down the cost of doing business in order to stimulate growth. This push has put Turkey's economy on course to expand by roughly 10 percent this year.

But it has also seen the official annual inflation rate reach almost 20 percent and the lira lose more than a quarter of its value against the dollar this year. "There is a growing risk that the central bank's continued obedience to pressure from President Erdogan for interest rate cuts results in sharp and disorderly falls in the currency over the coming days and weeks," Capital Economics analyst Jason Tuvey said in a research note.

Focus on elections

The central bank has lowered its policy rate by 300 basis to 16 percent since August. This means that Turkey has a negative real interest rate-a policy that devalues lira assets and gives additional incentive for people to buy foreign currencies and gold.

The lira has been put under further pressure by concerns that the US Federal Reserve may raise interests rates sooner than expected to fight a spike in inflation. This makes dollar holdings more attractive and drains investments away from emerging markets.

But analysts blame most of Turkey's problems on unconventional economic policies that put the focus on economic growth at the price of high inflation and a depreciating currency. Such measures help can help exporters and big businesses-but hurt ordinary citizens who see prices shoot up for daily goods.

Yet even big businesses have started to express alarm that Turkey may be spiralling toward a currency crisis that puts pressure on banks because they have billions in dollar-denominated debt coming due in the next few months.

Finance Minister Lutfi Elvan told to a business forum on Tuesday that the government was still focused on achieving price stability and stemming the lira's losses. But emerging market economist Timothy Ash said Erdogan-whose approval ratings are near the lowest point of his 19-year rule-has decided that economic expansion at any cost will help him win re-election in polls scheduled for 2023.

ANKARA: Turkish lira suffered one of its biggest falls of the year.

"It's an interesting call that the Erdogan team think growth and jobs rather than beating down on inflation will win them the next election," Ash wrote in a note to clients. —AFP

US shoppers undaunted by inflation

NEW YORK: Stronger-than-expected retail sales data and earnings from big-box chains painted a heady picture of US consumers on Tuesday despite global supply chain snarls that have fueled inflation and created shortages.

The Commerce Department reported retail sales in October scored their biggest month-on-month jump since March. Earlier, both Home Depot and Walmart released results that topped expectations, with the latter offering reassurances it expects sufficient inventories for the festive season and emphasizing a cautious approach in passing on higher costs to consumers.

Together, the government data and earnings suggest that many consumers are still well situated thanks to a strong employment market and government support payments sent out earlier in the pandemic. But inflation is a rising worry.

"We haven't seen this kind of inflation in the US for quite some time," said Walmart Chief Executive Doug McMillon, flagging in particular the drag from higher gasoline prices. "They're up dramatically versus a year ago," McMillon said on a conference call with analysts, predicting they would eventually fall. "Hopefully that's a gradual process and hopefully gas prices come down."

Neil Saunders, managing director at Global Data, said elevated consumer savings should mitigate the hit to consumption in 2021. "Looking further ahead, if inflation is not tamed, we see it becoming more of a brake on underlying or real growth," he said. "This is a particular risk if the weather turns colder and bills for household heating and fuel soar."

'Blockbuster holiday season'

The Commerce Department said retail sales rose 1.7 percent in October from September's upwardly revised rate, above expectations as a range of companies reported increasing business. Non-store retailers, such as e-commerce platforms, saw sales gain four percent, while electronics and appliance stores reported a 3.8 percent increase. Department stores and building materials sellers also saw increases, while sales at bars and restaurants were flat last month.

While the University of Michigan said last week that its consumer sentiment index had dropped to a 10-year low, Ian Shepherdson of Pantheon Macroeconomics said the retail sales data show "what people do is much more important than what they say." "We expect a blockbuster holiday season as people make up for lost time and begin to run down some of the $2.5 trillion in accumulated excess savings since the pandemic began," he predicted.

'Hedged' for inflation

At Walmart, net income for the quarter ending October 31 dropped to $3.1 billion, down 39.5 percent from the year-ago period due to a loss connected to paying down debt. Revenues rose 4.3 percent to $140.5 billion behind a robust 9.2 percent jump in comparable sales at US Walmart stores.

Confronted with backlogs at US ports, Walmart has been among the giant retailers to charter their own ships and route them to smaller ports. Inventories at Walmart's US business are up 17 percent compared with two years ago, the company said in a presentation Tuesday.

The biggest retailer in the world acknowledged the higher costs connected with global shipping and supply chain pressures, saying it has reduced markdowns on goods to lessen the hit to profit. But McMillon told analysts the company is not passing all of its cost inflation to its products, and that the company remains committed to a business model that emphasizes affordability. — AFP