Comment w/c 18th September

Prepare to say goodbye to ultra-low interest rates as inflation takes hold again

Last week will be seen as a watershed for the UK economy, the week when this prolonged period of ultra-low interest rates starts to be drawn to a close. There are three major pointers to this: inflation figures coming in unexpectedly high at 2.9%, the easing of the public sector pay cap, and Bank of England Governor Mark Carney's guidance to financial markets to prepare for interest rate rises.

Up until now increases in inflation have been seen as the inevitable result of a falling exchange rate, and that once this stabilises the status quo ante will return. The big difference now is that wages are starting to respond to rising inflation: so that it is not just 'price-push' but also 'wage-pull' inflation. Us old folk have of course seen it all before, and it is hard to remember that people in their mid- to late- 30s are unlikely to have been troubled by high inflation or interest-rates. The end of what might be described as 'normalised' interest rates of 5% or higher came abruptly in 2008, and since then much borrowing has been undertaken at very low rates.

So let's have a look at the current levels of mortgage lending in the United Kingdom. The average mortgage level is now £167,400, and the average first-time buyer mortgage is £132,800.

Of course there are significant regional variations in these figures, and use of fixed-rate mortgages is also commonplace. Week 6 of Managing My Money addresses the household balance sheet and reflects current attitudes towards mortgages, including fixed-rate.

But if you're based in Greater London where the average mortgage is £324,000, and if you have a variable rate mortgage, rising interest rates could have a major effect on your standard of living. If interest rates were to rise to current inflation levels (and bear in mind that many economists regard as necessary that interest rates should be higher than inflation if they are to have an effect in controlling it), your mortgage interest payments could rise by £700 per month.

Governor Carney warned financial markets of an impending rise in interest rates, but it's the Government who should be most concerned. The national debt has been financed at super-low rates for years now, and rising levels of inflation and interest rates will significantly increase the Chancellor's debt servicing costs. Of course the national debt is spread across both inflation-linked and fixed rate bonds, and we're still borrowing over £50 billion each year in addition to the debt replacement costs. It was therefore a week when the public sector saw increases coming from all sides: both public sector pay and debt servicing.

Finally the stock market: of course there the adjustment is immediate, as investors anticipate the new environment. The market fell by 2% as the US market rose, and the exchange rate was a significant component of this move.

But yields on equities are quite respectable, much higher in general than interest rates. Meanwhile the corporate cash piles will at last start earning some interest, which will work its way quickly to their bottom lines. So look for those sectors where they are long on cash for healthy returns, not forgetting banking and investment. And make sure you reserve tickets to the London Investor Show on Friday 20 October, where Share Radio has negotiated free entry for listeners – just quote voucher code SHARERADIO17.

Meanwhile, prepare for the return of economic normality! And if you're too young to know what that feels like, consult the parents ..