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Economic Review

July 2021

UK growth forecast upgraded

The International Monetary Fund (IMF) has sharply increased this year's growth forecast for the UK, although recent data does suggest the country's strong economic rebound has begun to slow down.

In its latest assessment of global economic prospects, the IMF highlighted a worrying divergence in fortunes between rich and poor nations, due to differing access to COVID vaccines. Growth across all wealthy countries in 2021 is now predicted to be half a percentage point stronger than the IMF's previous forecast published in April, but a similar-sized downgrade for other nations means the overall global growth forecast remains unchanged at 6%.

For the UK, the international soothsayer is now predicting growth of 7% in 2021 which, together with the US, is the joint-fastest rate among the G7 major advanced economies. This represents a sizeable upgrade from the previous forecast, which the IMF attributed to faster growth between February and April, when the success of the vaccination rollout and furlough scheme meant that the UK economy performed better than had been expected.

More recent data, however, does suggest UK growth has slowed across the past few months. The latest gross domestic product figures released by the Office for National Statistics (ONS), for instance, showed the economy expanded by 0.8% in May. While this was the fourth successive month of growth, the figure was significantly lower than April's 2% rate and below market expectations.

Furthermore, survey data suggests the country's economic rebound slowed again last month, with the IHS Markit/CIPS flash composite Purchasing Managers' Index (PMI) dropping to 57.7 in July from 62.2 in June. While any value over 50 does still represent an acceleration in output, the latest reading was the lowest since March and suggests the rising wave of coronavirus infections and resulting 'pingdemic' has started to stifle business activity.

Inflation views begin to diverge

While a majority of Bank of England (BoE) policymakers continue to expect current inflationary pressures to prove short-lived, some have voiced concerns that the recent leap in prices may require more immediate policy action.

Data released last month by ONS showed the Consumer Prices Index (CPI) 12-month rate – which compares prices in the current month with the same period a year earlier – rose to 2.5% in June, a sharp increase from May's 2.1% figure. This was significantly above the consensus forecast in a Reuters poll of economists and the highest rate since August 2018.

ONS Deputy National Statistician, Jonathan Athow, said the rise was widespread, with price increases across a range of categories, including food, fuel, second-hand cars, clothing and footwear. He also acknowledged that *"some of the increase is from temporary effects"* and that much of the rise was *"due to prices recovering from lows earlier in the pandemic"*.

Survey evidence, though, does suggest the surge in inflationary pressures is set to continue. Preliminary data from July's IHS Markit/CIPS PMI, for instance, reported input costs at an all-time high, with output charges rising at a near-record rate.

Over the past few weeks, most members of the BoE's Monetary Policy Committee (MPC) have expressed a view on the likely future path of inflation. A majority still seem to feel that the recent jump in prices will prove temporary and that the Bank's current monetary stimulus should therefore be maintained.

However, two members – Dave Ramsden and Michael Saunders – recently broke ranks, arguing that the time for tighter monetary policy may be nearing. Minutes from the next MPC meeting, along with updated economic forecasts, are due to be published on 5 August and will provide further insight into the committee's thoughts on the future course of action.

Markets: (Data compiled by TOMD)

London stocks ended lower on July's last day of trading, following a weak session in Asia, weighed down by travel shares and miners, amid concerns that rising global coronavirus infections could derail economic growth. Markets in Europe also slipped back at the end of the month, with continuing concerns over China's regulatory crackdown on tech stocks overshadowing upbeat earnings reports.

Overall, the FTSE 100 made very little progress in July, ending the month on 7,032.30, a slight loss of 0.07%. The mid-cap FTSE 250 index, which is typically made up of UK-focused businesses, reached record highs during July, as COVID-19 restrictions eased and the economy picked up, to close on 22,934.83, a monthly gain of 2.50%. The Junior AIM index closed on 1,251.11.

The Euro Stoxx 50 gained 0.62% in the month to end on 4,089.30. In Japan, the Nikkei 225 lost 5.24% as spiking COVID-19 cases, the crackdown by China on its technology sector, and mixed earnings from a range of companies reduced investor sentiment.

In the US, the Dow Jones ended July up 1.25% to close on 34,935.47, despite weaker than expected earnings results from heavily weighted companies including Amazon. The NASDAQ recorded a gain of 1.16%.

On the foreign exchanges, sterling closed the month at $1.39 against the US dollar. The euro closed at €1.17 against sterling and at $1.18 against the US dollar.

Index	Value (30/07/21)		% Movement (since 30/06/21)
FTSE 100	7,032.30	↓	0.07%
FTSE 250	22,934.83	↑	2.50%
FTSE AIM	1,251.11	↑	0.22%
EURO STOXX 50	4,089.30	↑	0.62%
NASDAQ COMPOSITE	14,672.68	↑	1.16%
DOW JONES	34,935.47	↑	1.25%
NIKKEI 225	27,283.59	↓	5.24%

Gold is currently trading at around $1,813 a troy ounce, a gain of 2.51% on the month, having dropped back from a monthly high of over $1,829 on 15 July. Oil producing nations have agreed to increase output from August, with the aim of reducing prices and easing pressure on the global economy. Brent Crude is currently trading at around $75 per barrel, a gain of 0.57% on the month.

Labour market recovery continues

The latest set of employment statistics show the labour market continues to recover, with the number of employees on company payrolls growing by the largest amount since the start of the pandemic.

According to tax data, the number of people in payrolled employment rose by 356,000 in June, boosted by strong growth across both the food and accommodation sectors. While the data did show total UK employment remains below pre-pandemic levels, in some parts of the country – the North East, North West, East Midlands and Northern Ireland – payroll numbers have now actually risen beyond their pre-COVID levels.

The number of job vacancies is also now higher than before the pandemic struck. In the three months to June, there were 862,000 jobs on offer, 77,500 more than in the January to March 2020 period. Perhaps unsurprisingly, the recent increase was largely driven by rising vacancies within the hospitality and retail sectors.

Commenting on the figures, ONS Director of Economic Statistics Darren Morgan said, *"The labour market is continuing to recover, with the number of employees on payroll up again strongly in June. However, it is still over 200,000 down on pre-pandemic levels, while a large number of workers remain on furlough."*

Euro 2020 buoys retail sales

Official statistics have revealed that strong demand for food boosted retail sales in June, while more recent survey evidence suggests sales volumes remain at relatively healthy levels.

According to ONS data, sales volumes rose by 0.5% in June, with the food sector the principal contributor to growth. In total, sales at food shops rose by 4.2%, as football fans stocked up on food and drink to enjoy at home during Euro 2020. In contrast, sales at non-food shops fell, with furniture and clothing demand particularly weak.

Data from the latest Distributive Trades Survey, published by the Confederation of British Industry (CBI) suggests a slight dip in sales last month, with the net balance figure falling from a near three-year high of +25 in June to +23 in July. Retailers also said they expect sales to remain broadly in line with seasonal norms in August.

Commenting on the findings, CBI Principal Economist, Ben Jones, said, *"Consumer demand continues to support the UK's economic recovery. Retail sales have been at or above seasonal norms for the last four months now, although this picture is not universal, with the clothing and footwear stores in particular yet to see demand recover to usual levels."*