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News in Review

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"There is pent-up demand and ambition across many sectors"

Last Friday, the Confederation of British Industry (CBI) published its latest economic forecast, which predicts UK GDP growth is set to bounce back to pre-COVID levels by the end of the year, despite the four-week delay in lifting all lockdown restrictions. The industry body said the economy looks *'set for a breakthrough year,'* with its new projections estimating growth of 8.2% in 2021 and 6.1% next year, significant upgrades from the 6.0% and 5.2% previously forecast.

These upward revisions largely reflect the previous relaxation of lockdown restrictions, rapid vaccine rollout and unleashing of pent-up demand. CBI Director General, Tony Danker, commented, *"There are really positive signs about the economic recovery ahead this year and next. The data clearly indicates that there is pent-up demand and ambition across many sectors."* Mr Danker added, *"The imperative now must be to seize the moment to channel this investment into the big drivers of long-term UK prosperity"* and called on the government to produce *"far more detailed plans on everything from decarbonisation, to innovation, to levelling up."*

Inflation above Bank target

The past seven days have also seen the Office for National Statistics (ONS) release a raft of economic data, including the latest inflation figures, which revealed the Consumer Prices Index (CPI) now stands above the Bank of England's 2% target. An increase in the cost of fuel and clothes pushed the CPI rate up to 2.1% in the year to May, significantly higher than April's 1.5% figure and above all forecasts in a Reuters poll of economists. While most policymakers still appear to believe upward price pressures will prove temporary, the higher-than-expected inflation number inevitably fuelled further debate about the future timing of interest rate movements.

Retail sales dip

Last week also saw publication of the latest retail sales statistics, which reported an unexpected drop in sales. According to ONS data, total sales volumes fell by 1.4% between April and May, as people chose to visit reopened hospitality venues rather than buying food at supermarkets. ONS commented, *'Anecdotal evidence suggests the easing of hospitality restrictions had an impact on sales as people returned to eating and drinking at locations such as restaurants and bars.'* While strong hospitality trade suggests the disappointing sales figure is not necessarily an early sign of weaker consumer demand, some economists did point to other data revealing a fall in credit and debit card payments, and restaurant reservations in early June, as evidence that the surge in spending may be losing steam.

Government borrowing eases

Public sector finance statistics, published on Tuesday, showed that borrowing continues to fall from the mammoth levels witnessed last year. In May, the government borrowed £24.3bn; this was £19.4bn lower than last year, although still the second-highest May number ever recorded. Encouragingly, the figure was below analysts' expectations, with signs that the recent economic recovery has started to boost tax revenues. The data also revealed government debt now stands at almost £2.2trn, or 99.2% of GDP, a ratio not seen since the early 1960s. In a statement, Chancellor Rishi Sunak reaffirmed his commitment *"to support people and businesses to get back on their feet"* but also stressed the need *"to get the public finances on a sustainable footing"* over the medium term.

Fed signals earlier rate rise

Across the pond, last week saw the Federal Reserve vote to leave US interest rates unchanged, although it did announce a further upgrade to its growth forecast, as well as a rise in anticipated inflationary pressures. The Fed now expects the US economy to grow by 7.0% across the whole of 2021, up from its March prediction of 6.5%, while this year's inflation forecast has been raised to 3.4%, from 2.4% previously.

The US central bank also brought forward its prediction for the first rise in interest rates. The 'dot plot' of policymakers' forecasts now points to two rate hikes before the end of 2023; in comparison, a majority of Fed policymakers had suggested the first hike would not come until 2024, at its previous meeting held in March.

Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.