PO Box 17906, Sutton Coldfield,
West Midlands, B73 9GL
t 07976 507785
e ben@harroldfs.co.uk
w www.harroldfs.co.uk

News in Review

4 August 2021

"Our economy is rebounding faster than initially expected"

Last week saw the International Monetary Fund (IMF) release its latest assessment of the global economy. Among the headline stories was a sharp increase to this year's UK growth forecast, with the renowned international soothsayer now predicting a 7% expansion - 1.7 percentage points higher than its previous projection published in April. This uplift was attributed to stronger than expected growth between February and April, due to the success of the UK vaccination programme and furlough scheme. Responding to the upgrade, Chancellor Rishi Sunak said, *"There are positive signs that our economy is rebounding faster than initially expected."*

Along with the US, the UK rate was the joint-highest among the major advanced economies. In total, growth across all rich nations is forecast to be half a percentage point above April's prediction. However, the latest IMF assessment did highlight a worrying divergence in fortunes between rich and poor countries due to differing levels of access to COVID vaccines. As a result, the overall global growth forecast for 2021 remains unchanged at 6%, with a weaker outlook for many emerging market and developing economies offsetting gains across richer nations.

US growth below expectations

While the US economy is expected to witness strong growth this year, the latest gross domestic product (GDP) figures released last Thursday fell short of market expectations. According to the Commerce Department's advance estimate, the US economy grew at an annualised rate of 6.5% in the second quarter. This was only slightly above the rate recorded in the first three months of the year and significantly below the consensus forecast of 8.5%. It did, however, move US output back above its pre-pandemic level for the first time since COVID struck.

Eurozone growth rebounds

GDP data published on Friday also showed the eurozone economy has pulled out of its pandemic-induced recession, with an initial second quarter growth estimate of 2%. This figure, which was better than economists predicted, was buoyed by a particularly strong performance from the bloc's third and fourth largest economies, Italy and Spain, which posted quarterly growth rates of 2.7% and 2.8%, respectively. Despite the second quarter rise, the eurozone economy remains 3% smaller than its pre-pandemic peak. The first estimate of UK second quarter GDP is due for release on 12 August.

Eurozone and US inflation up

During the past seven days, both the eurozone and US statistics agencies published new inflation data. In the eurozone, an early official estimate suggests annual inflation rose to 2.2% in July from 1.9% in June. This was 0.2 percentage points above market expectations and the highest rate since October 2018; it also moved inflation above the European Central Bank's 2% target.

In the US, the Federal Reserve's preferred inflation measure (core PCE) rose to 3.5% in the 12 months to June, from 3.4% in May. While this leaves the rate well above the central bank's 2% target, it was actually 0.2 percentage points below analysts' expectations. A day prior to the inflation data release, the Fed announced its current monetary policy stance would remain unchanged, with Fed Chair, Jerome Powell, reiterating his view that higher prices were the result of *"transitory factors"* and therefore not an imminent risk to the US economy.

Furlough numbers fall

Official figures published last Thursday showed the number of people on furlough at the end of June stood at 1.9 million, more than half a million fewer than at the end of May. The news came three days before the next phase of furlough tapering was introduced, with employers having to contribute 20% towards employee salaries from 1 August. Research published by the British Chambers of Commerce on Monday suggests nearly one in five firms are considering staff redundancies in response to the furlough change.

Housing market cools

The latest Nationwide House Price Index, released last Wednesday, revealed that annual house price growth slowed to 10.5% in the year to July, down from a 17-year high of 13.4% in the previous month.

Stocks rally

After having been hit by concerns over China's tech crackdown last week, London stocks rallied at the start of the week; the FTSE 100 rose to a three-week high on Tuesday afternoon, continuing its strong start to August, whilst the domestically focused FTSE 250 reached another record high.

Here to help

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