

News in Review

27 October 2021

"Growth is being accompanied by an unprecedented rise in inflationary pressures"



A closely monitored survey, released last week, suggests the UK economy unexpectedly regained momentum during October. The preliminary reading of the IHS Markit/CIPS Composite Purchasing Managers' Index (PMI) rose to 56.8, up from 54.9 in September. This represents the largest monthly increase since May and beat the consensus forecast in a Reuters poll of economists which had predicted a decline to 54.0.

Commenting on the findings, IHS Markit Chief Business Economist Chris Williamson said the economy *"picked up speed again in October"*, although he did strike a note of caution adding, *"the expansion is looking increasingly dependent on the service sector, which in turn looks prone to a slowdown amid the recent rise in COVID-19 cases."*

Mr Williamson also noted that the Index reported the fastest rate of input price inflation since its inception in 1998, fuelled by higher wages and supply shortages. He concluded, *"Growth is being accompanied by an unprecedented rise in inflationary pressures, which will inevitably feed through into higher consumer prices."*

Inflation likely to hit 5%

The latest PMI data has added to speculation that the Bank of England (BoE) will soon need to raise interest rates to guard against inflationary expectations becoming entrenched. In comments published in last Thursday's Financial Times, the BoE's new Chief Economist Huw Pill, warned inflation is likely to hit 5% in the coming months and said the question of whether to raise rates would be a *"live"* one when the

Monetary Policy Committee (MPC) next convenes on 4 November.

Mr Pill said, *"I would not be shocked — let's put it that way — if we see an inflation print close to or above 5%. And that's a very uncomfortable place for a central bank with an inflation target of 2% to be."* However, the Chief Economist described November's MPC decision as *"finely balanced"* and was at pains not to suggest any need to move rates much higher than their pre-pandemic level of 0.75%.

State Pension rise

Last Wednesday's announcement that inflation, as measured by the Consumer Prices Index (CPI), had risen by 3.1% in the year to September, means retirees now know by how much the State Pension will increase from next April. Following the government's decision to suspend its triple lock guarantee for one year, September's CPI rate will be used to calculate the uplift. As a result, the value of the basic State Pension will increase in April 2022 from £137.60 to £141.85 per week, while the full new State Pension will rise from £179.60 to £185.15 per week.

Retail sales down again

Official data released last Friday showed retail sales unexpectedly fell for the fifth successive month, with volumes down 0.2% in September. Although sales volumes remain above pre-pandemic levels, this latest fall marks the longest consecutive run of monthly declines since records began in 1996.

Responding to the data, British Retail Consortium Chief Executive, Helen

Dickinson said, *"Retailers will be concerned by the slump in sales, just as they begin their preparations for the all-important Christmas period. Fuel shortages, wet weather, and low consumer confidence all contributed to lower consumer demand, with household goods, furniture and books all hit particularly hard."*

Public borrowing lower than expected

The latest public sector finance statistics, released last Thursday, showed that government borrowing remains on a downward trajectory. Total borrowing across the first six months of the current financial year fell to £108.1bn, over £100bn less than the figure recorded during April-September 2020. While this is still more than triple the pre-pandemic level, borrowing this year has fallen more quickly than economists expected, which will give the Chancellor some room for manoeuvre when he delivers his Budget and Spending Review in the Commons this afternoon.

Pre-Budget announcements

Perhaps unsurprisingly, the news agenda for the last seven days also featured intense speculation about the Budget's likely content. In addition, much to the Commons Speaker's annoyance, there were also several pre-Budget briefings, including Treasury statements setting out spending plans for transport, health and education, details of an increase in the National Living Wage to £9.50 per hour and a lifting of the year-long public sector pay freeze.

Here to help

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

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.