

News in Review

2 June 2021

"It's no surprise to see an uptick in optimism"



The latest quarterly Service Sector Survey conducted by the Confederation of British Industry (CBI), has provided further evidence of growing confidence within the UK economy. The data, published last Thursday, revealed a record improvement in business and professional services sentiment, while consumer services optimism was found to be rising at its quickest pace since May 2014. CBI Principal Economist, Ben Jones, commented, "With the reopening roadmap on track and the vaccine rollout delivering, it's no surprise to see an uptick in optimism across the sector."

Other data released last week also points to a strong economic rebound as the country emerges from lockdown. May's IHS Markit/CIPS Manufacturing Purchasing Managers' Index, for instance, revealed a deluge of new orders which fuelled a record surge in UK manufacturing activity. Figures produced by OpenTable for the Office for National Statistics, showed restaurant bookings in the first full week of reopening, up 32% on the equivalent period of 2019, while the number of furloughed workers dropped to the lowest level since the start of the year.

Government urged to stick to roadmap

Despite the furlough fall, UK Hospitality analysis published last Friday, revealed the extent of the staffing crisis the sector currently faces, with businesses struggling to fill thousands of waiting staff and chef roles. The industry trade body called on the government to stick to its roadmap and lift all restrictions in England on 21 June in order to "restore confidence in the hospitality sector."

However, although the vaccine rollout continued apace last week, the past few days have witnessed a growing chorus of voices from the scientific community calling for the roadmap to be delayed, amid fears that rising cases of the more transmissible variant first discovered in India, could spark a third wave of infections. The government is expected to announce a decision on whether it will implement the next stage of its roadmap on 14 June and speaking on Sunday, vaccines minister Nadhim Zahawi, refused to speculate, simply saying, "We have to look at the data and share it with the country."

On Tuesday, Nicola Sturgeon confirmed the easing of lockdown restrictions has been paused for millions across Scotland, due to rising virus cases. Most of the country had been due to drop down to level one from next week, but 13 council areas will remain in level two due to rising case rates.

OECD upgrades growth forecasts

On Monday, the Organisation for Economic Co-operation and Development (OECD) released its latest economic update, proclaiming 'prospects for the world economy have brightened.' According to the new predictions, the global economy is set to grow by 5.8% in 2021, up sharply from December's 4.2% forecast. The new projections also suggest UK growth will hit 7.2% this year, the fastest rate among the large rich nations.

The OECD said the improving global outlook partly reflects swift vaccination campaigns, which are allowing advanced economies to gradually reopen, as well as a significant boost from President Biden's multi-trillion-dollar US stimulus package. However, the Paris-based soothsayer also

warned 'this is no ordinary recovery' and that 'it is likely to remain uneven' with some poorer countries being left behind.

House price growth accelerates

The latest Nationwide House Price Index, published on Tuesday, showed that prices rose by 10.9% in the year to May, the highest annual rate of house price inflation in nearly seven years. Nationwide also said it expects prices to accelerate further, fuelled not only by the Stamp Duty holiday but also a shift in housing preferences with 'people reassessing their needs in the wake of the pandemic.'

On the same day, Bank of England Deputy Governor Dave Ramsden said the Bank was "looking carefully at the housing market" as it assesses the likelihood of a rapid recovery from the pandemic triggering a broader pick-up in inflation. However, he also reiterated the Bank's view that inflationary pressures are likely to prove temporary and ease if the economy slows after an initial burst of post-lockdown activity.

US inflation surge

Inflationary pressures were also in the US spotlight last Friday, with Bureau of Economic Analysis data showing the core personal consumption expenditure index climbed to 3.1% in April, up from 1.9% in March. This represents a 29-year high and puts inflation firmly above the Federal Reserve's 2% target. The data is unlikely to have any immediate impact on monetary policy, however, as Fed Chair Jerome Powell has consistently stated that higher inflation will be transitory.

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