

## News in Review

30 June 2021



*The Committee judges that UK inflation expectations remain well anchored'*

**Last week, the Bank of England's Monetary Policy Committee (MPC), unanimously voted to maintain base rates at an all-time low of 0.1%. In a statement released on Thursday, the MPC shrugged off concerns over a pick-up in inflation, saying its expectation is that 'the economy will experience a temporary period of strong GDP growth and above-target CPI inflation, after which growth and inflation will fall back.'** The Committee did acknowledge the possibility that 'near-term upward pressure on prices could prove somewhat larger than expected' but, taking account of all the available evidence, concluded that 'UK inflation expectations remain well anchored.'

The MPC statement was released a day after the latest IHS Markit/CIPS Composite Purchasing Managers' Index (PMI) reported a surge in inflationary pressures faced by UK firms. According to preliminary June data, input costs are now rising at their fastest rate for 13 years, while prices charged by firms are increasing by the largest amount since records began in 1999. This suggests consumer price inflation may have a lot further to rise, after breaking through the Bank's 2% target last month. However, while the MPC did admit inflation is likely to rise above 3%, it reaffirmed its view that this will only be 'for a temporary period.'

### **UK economic expansion continues**

Other data published in the PMI survey, pointed to strong monthly improvement in business activity across the UK private sector. June's headline reading was only slightly below the record figure posted in

May and among the largest in the index's 23-year history, with marked increases in output across manufacturing and service sectors. Chris Williamson, Chief Business Economist at IHS Markit said, "Businesses are reporting an ongoing surge in demand in June as the economy reopens, meaning the second quarter looks to have seen economic growth rebound very sharply from the first quarter's decline."

### **Consumer confidence stays strong**

Data released during the past week suggests consumer sentiment remains at healthy levels. GfK's Consumer Confidence Barometer was unchanged in June, leaving it at its highest point since the outset of the pandemic. June's CBI Distributive Trades Survey recorded the highest net retail sales balance since August 2018, while retailer expectations for July remain good for the time of year. CBI Principal Economist Ben Jones commented, "The success of the vaccination programme is feeding through to stronger consumer confidence which, along with the re-opening of hospitality, is encouraging shoppers back onto the streets."

On Monday, the new Health Secretary, Sajid Javid, confirmed that restrictions are still set to be lifted on 19 July in England, adding, "People and businesses need certainty, so we want every step to be irreversible."

### **Employer confidence up; furlough numbers down**

A survey published last week found employers are increasingly optimistic about economic prospects. The Recruitment & Employment Confederation's measure of business confidence surged 21 percentage points

to +11 in the three months to May, its first positive reading since June 2018 and the highest figure for almost five years. The survey did, however, report labour and skills shortages as a growing problem.

Statistics revealed that the number of furloughed employees dropped to around 1.5 million in early June, the lowest figure since the pandemic began, suggesting that the programme's demise on 30 September may not create as large a jump in unemployment as previously feared.

### **US infrastructure bill**

Last week, the US Senate agreed a cross-party infrastructure bill, worth \$1.2trn. The eight-year plan, including funding for roads, public transport and internet accessibility, was hailed by President Biden, as long overdue. He added, "We're in a race with China and the rest of the world for the 21st Century. This agreement signals to the world that we can function, deliver and do significant things." The advancement of this deal depends on the progress of a massive \$6trn spending package, to deliver on campaign promises such as climate change, education and childcare benefits.

### **Overseas travel update**

On 24 June, Transport Secretary Grant Shapps, announced additions to the green list of countries, including Malta, Madeira, and the Balearic Islands, from 4am Wednesday 30 June. Red list additions include Dominican Republic, Tunisia and Uganda.

### **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***