HOWARD
WEALTH MANAGEMENT

Fareham Innovation Centre,
Merlin House, 4 Meteor Way,
Lee-On-The-Solent, Hampshire PO13 9FU

T 02393 877630
E info@howardwealth.com
W www.howardwealth.com

News in Review

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'It could be appropriate to start reducing the pace of asset purchases this year'

During a week in which the news agenda was dominated by Afghanistan, the US Federal Reserve warned it could start cutting back support for the economy sooner than markets had previously expected. Minutes from the Fed's July meeting, released last Wednesday, revealed a willingness to begin tapering monthly asset purchases before the year end, *'Looking ahead, most participants noted that, provided that the economy were to evolve broadly as they anticipated, they judged that it could be appropriate to start reducing the pace of asset purchases this year.'*

The minutes also stated that officials judged *'uncertainty was quite high'* about the outlook and showed relatively little consensus among policymakers on a range of key issues, including whether inflation, unemployment or the pandemic, currently pose the biggest threat to economic recovery.

US markets rose on Tuesday following FDA approval of the Pfizer vaccine and ahead of Thursday's Federal Reserve conference, when Chairman Jerome Powell is expected to outline the central bank's outlook on US economic recovery.

UK recovery losing momentum

On this side of the Atlantic, a closely monitored survey, published on Monday, found that staff and supply shortages are taking their toll on the UK's economic recovery. The IHS Markit/CIPS flash composite Purchasing Managers' Index (PMI) fell to a six-month low of 55.3 in August, suggesting that the post-lockdown economic rebound is losing momentum. On a more positive note, the PMI's measure of employment growth rose to its highest ever level in August.

Inflation falls more than expected

In the last seven days, the Office for National Statistics (ONS) released a raft of economic data, including the latest inflation figures which revealed a sharper-than-expected slowdown in price growth. The Consumer Prices Index fell back to the Bank of England's 2% target last month, following a 2.5% rise in June. Commenting on the data, ONS Deputy National Statistician, Jonathan Athow, said *"Inflation fell back in July across a broad range of goods and services, including clothing, which decreased with summer sales returning after the pandemic hit the sector last year."*

Despite July's fall, analysts still expect inflation to rise again later this year, partly due to the removal of a temporary hospitality VAT cut and a hike in energy bills. In addition, ONS producer prices data revealed that output costs increased by 4.9% in July – the fastest annual rate of growth in almost 10 years – while input costs jumped by a higher-than-expected 9.9%. Federation of Small Businesses National Chair, Mike Cherry, commented, *"While consumer costs have cooled, it's a different story for inputs, with producer prices continuing their upward march this month."*

Retail sales down

ONS data released last Friday also showed retail sales fell unexpectedly in July; sales volumes declined by 2.5% compared to June, the largest monthly decline since January. According to retailer feedback, a combination of bad weather and England's Euro 2020 progress kept shoppers at home, although analysts also blamed a rise in the number of COVID cases which forced some consumers to self-isolate and potentially prompted others to stay away from the shops.

Government borrowing falls

Last week saw publication of the latest public sector finance statistics, which showed borrowing continuing to ease from last year's mammoth levels. In July, the government borrowed £10.4bn; although this still represents the second-highest July number ever recorded, it was almost half the level borrowed in the same month of 2020. ONS said the budget deficit in the first four months of this fiscal year is now £26.1bn below the Office for Budget Responsibility's March forecast reflecting both stronger-than-anticipated receipts and lower-than-expected spending.

'Triple lock' could be diluted

It is reported that the *'triple lock'* – which guarantees the State Pension will rise in line with the highest of earnings, inflation or 2.5% – looks set to be watered down. A COVID-related surge in average earnings means pensioners could be in line for a rise of over 8% next year if the government honours its manifesto commitment. Last Wednesday the Prime Minister's spokesperson was quoted as saying, *"I think we recognise the legitimate concerns about potentially artificially inflated earnings impacting the uprating of pensions."*

Here to help

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