

News in Review

20 July 2022



"The economy rebounded in May with growth across all main sectors"

Data released from the Office for National Statistics (ONS) last week shows how the UK economy returned to growth in May, recording expansion of 0.5% during the month. After shrinking in April and March, the growth experienced in May was higher than the flat growth widely anticipated by economists polled by Reuters.

Encouragingly, ONS Director of Economic Statistics Darren Morgan said that *"the economy rebounded in May with growth across all main sectors"* including manufacturing, construction and travel, while health was a prime driver. The all-important service sector grew by 0.4% and human health and social work activities increased by 2.1%. Travel agencies fared well with demand for summer holidays really taking off and output in tour operation and travel agency industry surging by 11%.

Mr Morgan commented on the good news for manufacturing and construction, *"There was widespread growth across manufacturing after several tough months, while construction also fared well with housebuilding and office refurbishment driving growth."* The UK's monthly construction output rose by 1.5% on the month in volume terms in May 2022, the seventh consecutive month of growth.

Despite the economy's more positive performance, wider expectations are for inflationary pressures to impact growth, especially with household incomes to be squeezed further heading into the autumn as energy prices continue their ascent.

Current Chancellor Nadhim Zahawi commented on the findings, *"It's always great to see the economy growing but I'm not complacent. I know people are concerned, so we are continuing to support families and economic growth."* He continued, *"We're working alongside the Bank of England to bear down on inflation and I am confident we can create a stronger economy for everyone across the UK."*

Next PM needs an economic plan

With the competition for the next Prime Minister really hotting up and the two final candidates to be announced today, business leaders have been airing their views on the requirement for the development of an economic plan to elevate the country from a low-growth environment. Representing 190,000 businesses, the Confederation of British Industry (CBI) wrote an open letter to candidates for the leadership of the Conservative Party, citing that they must develop *'serious, credible and bold plans for growth'* in the face of some major challenges including *'eye-watering'* inflation, supply chain disruptions and skills shortages. The letter outlined, *'Sustainable economic growth must be at the heart of your manifestos. Without it, leadership ambitions cannot be met nor those of the British people and businesses.'*

Inflation will normalise – "no ifs or buts"

In a speech last week, Bank of England (BoE) Governor Andrew Bailey said that *"Bringing inflation back down to the 2% target sustainably is our job, no ifs or buts."* Although Bank Rate is on the rise, with further increases likely, it is expected that lower interest rates

will return once the effects of the pandemic and the war in Ukraine fade. Bailey added, *"Cyclical adjustments in short-term nominal interest rates – like those we are currently witnessing in the United Kingdom and abroad – will for the foreseeable future continue to be played out against the backdrop of low global equilibrium real interest rates."* The BoE Governor told MPs last week that he still holds the view that inflation will fall sharply next year.

Markets

As the country grappled with the heatwave and sweltered in the hottest temperatures ever recorded, London stocks closed above the waterline on Tuesday as concerns over potential interest rate rises and inflation cooled, with the FTSE 100 ending the session up 1.01% at 7,296.28. The FTSE 250 ended up 1.41% at 19,282.59. European shares pushed higher on Tuesday following a Reuters report that Moscow would resume natural gas exports to Europe through the Nordstream 1 pipeline later this week, after having been halted for ten days of annual maintenance. Wall Street stocks also closed in positive territory on Tuesday, supported by updates from some of the nation's biggest banks and suggestions from Federal Reserve officials that they were contemplating tempering their rate rising intentions.

Here to help

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