

## News in Review

16 August 2023

*"This is good news... we are making progress"*



### Last Friday, newly released data from the Office for National Statistics (ONS) revealed a better-than-expected uplift in UK economic growth.

The UK's gross domestic product (GDP) rose by 0.5% on a monthly basis in June, beating market expectations of a 0.2% rise. This higher growth rate, the fastest since October 2022, followed a 0.1% fall in May, indicating that the economy expanded by 0.2% between April and June.

The increase was partly explained by the month's warm weather, which benefited pubs, restaurants and the construction industry, according to the report. Production was a star performer, with a rise of 1.8%, its biggest since August 2020, thanks largely to manufacturing (2.4%), which provided the biggest boost.

Darren Morgan, from ONS said, *"The economy bounced back from the effects of May's extra bank holiday to record strong growth in June. Manufacturing saw a particularly strong month with both cars and the often-erratic pharmaceutical industry seeing particularly buoyant growth. Services also had a strong month with publishing, car sales and legal services all doing well, though this was partially offset by falls in health, which was hit by further strike action."*

Although June's growth figures showcased more resilience than expected, the UK is still the only G7 country not to see its GDP return to 2019 levels. Analysts including the Centre for Economics and Business Research (CEBR) are still predicting that

the UK economy will fall into recession by the end of 2023.

Sam Miley of CEBR said, *"Though GDP picked up in Q2, it should be noted that growth remains poor by historic standards. The future outlook is also weak, with the economy continuing to face several headwinds, notably the impact of tighter monetary policy."*

In response to the June GDP figures, Prime Minister Rishi Sunak commented, *"This is good news. At the beginning of the year I made growing the economy one of my top priorities and we are making progress. There's still more work to do, but today's figures show the plan is working."*

### **"The new normal" - higher mortgage rates**

According to analysis of the most recent mortgage cost data from the Bank of England, average monthly mortgage payments on a detached house have surpassed £2,000 for the first time. This represents a weighty increase from £1,200 recorded back in 2021 and means that borrowers nearing the end of a two-year fixed rate mortgage will have to contend with an average monthly increase on their mortgage payment of £800. For those living in the capital, the average mortgage payment on a detached property has increased to almost £5,000 a month, a huge rise from £3,200 recorded just 16 months ago.

Although several lenders have recently reduced their mortgage rates, there are expectations in the market that rates will settle at a higher level. Zoopla's Executive

Director, Richard Donnell is expecting sub-5% mortgages to return to the market later in 2023, adding that rates between 4% and 5% will be *"the new normal."*

### **Wages grow at record rate**

In Q2 2023, annual growth in regular pay (excluding bonuses) was 7.8%; this is the highest regular annual growth rate since comparable records began in 2001. In real terms, taking into account the Consumer Prices Index (CPI) measure of inflation, average regular pay fell by 0.6%.

There are signs in the ONS data that the UK employment market is easing. The jobless rate rose from 4% to 4.2%, driven by people who have been unemployed by up to six months. The economic inactivity rate decreased by 0.1 percentage points on the quarter, to 20.9% in Q2, largely driven by those inactive because they are looking after family or home.

### **Price of food staples drops**

Research firm Kantar has found that the prices of food staples such as oil and milk are finally *'edging down'* even though shopping bills remain high.

Fraser McKeivitt, Head of Retail and Consumer Insight at Kantar said that UK grocery prices overall were *"still up year on year across every supermarket shelf"*, but that consumers *"will have been relieved"* to see the cost of some staples fall compared with earlier in the year.

### **Here to help**

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