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Economic Review

June 2021

MPC maintains monetary stance

Following its latest meeting held on 22 June, the Monetary Policy Committee (MPC) judged that the existing monetary stance remains appropriate, despite inflation rising above the Bank of England's target level.

Data released last month by the Office for National Statistics (ONS) showed the Consumer Prices Index (CPI) 12-month rate – which compares prices in the current month with the same period a year earlier – rose to 2.1% in May, a sharp acceleration from April's rate of 1.5%. This was higher than all forecasts in a Reuters poll of economists and moved inflation above the Bank's 2% target for the first time in almost two years.

May's surge, however, largely reflects the weak inflation profile in the same month last year, when the economy was still reeling from the effects of the first lockdown. ONS said the biggest upward contributor was fuel prices, which actually fell in May 2020 and now stand almost 18% higher than last year, their largest annual rate of increase in over four years.

Recently released survey evidence suggests the surge in inflationary pressures is likely to continue in the coming months. Preliminary data from the IHS Markit/CIPS Composite Purchasing Managers' Index, for instance, found input costs in June were rising at their fastest rate for 13 years, while prices charged by firms were up by the largest amount since records began in 1999.

However, after unanimously voting to maintain Bank Rate at an all-time low of 0.1%, policymakers largely shrugged off concerns over the recent pick-up in inflation. In a statement released alongside the interest rate decision, the MPC acknowledged that the CPI rate is 'expected to pick up further above the target' and is 'likely to exceed 3%.' The statement reaffirmed the Committee's view that this will only be 'for a temporary period.'



Record jump in employee numbers

The jobs market continues to show signs of recovery with the latest labour market statistics reporting a record rise in the number of employees on company payrolls, another decline in unemployment and a rise in job vacancies.

Although the number of people in work remains well below pre-COVID levels, recently released ONS data has highlighted a surge in employee numbers, with 197,000 more people in payrolled employment in May, compared to April. This represents the largest single-month increase in this measure of employment since records began in 2014.

There was positive news on the unemployment front, with the headline rate falling for the fourth month in a row. The overall rate dipped to 4.7% across the three months to April, down from 4.8% in the previous three-month period.

The data also showed that job vacancies now stand at their highest level since the onset of the pandemic. Two sets of experimental monthly data, currently being trialled by ONS, both suggest vacancies in May were back above pre-pandemic levels.

Commenting on the figures, ONS Head of Economic Statistics Sam Beckett said, "The number of employees on payroll grew strongly in May, although it is still over half a million down since the pandemic struck. Job vacancies continued to recover in the spring, with strong growth in sectors such as hospitality. Meanwhile, the redundancy rate remains subdued."

The number of employees on furlough also continues to fall, with the latest statistics revealing a drop to around 1.5 million in early June. This is significantly below the peak of nearly 9 million recorded in May 2020 and the lowest figure since the pandemic struck. The Bank of England now believes unemployment will rise only modestly when the furlough scheme ends on 30 September and this further decline in furlough numbers supports that view.

Major UK benchmarks closed June largely flat. At month end, market sentiment was hindered by Q1 economic growth figures from ONS, showing UK GDP shrank by 1.6%, compared to an initial estimate of a 1.5% decline. The fall can be attributed to the closure of shops and restaurants during lockdown.

The recent jump in infections and their potential economic impact, have started to weigh on market sentiment, as do inflationary-related concerns. Narrowly achieving its fifth consecutive monthly gain, the FTSE 100 recorded a modest increase of 0.21% in June, to close on 7,037.47. The mid-cap FTSE 250 index closed June on 22,376.02, a monthly loss of 1.36%. The Junior AIM index closed on 1,248.31.

The Euro Stoxx gained 0.61% in the month. The latest economic data out of the euro area was largely upbeat, although some analysts expressed concern at month end, regarding the potential for sharp CPI increases across the region over the next few months as economies reopen. In Japan, the Nikkei 225 lost 0.24% in June, to end Q2 on 28,791.53.

In the US, the Dow Jones ended June little changed, as traders rotated back into growth and technology stocks. The Dow ended June down 0.08%, while the NASDAQ recorded a gain of over 5%. Wall Street continued to pick up pace after positive US jobs data.

On the foreign exchanges, sterling closed the month at \$1.38 against the US dollar. The euro closed at €1.16 against sterling and at \$1.18 against the US dollar.

Index	Value (30/06/21)	% Movement (since 28 or 31/05/21*)
 FTSE 100	7,037.47	▲ 0.21%
 FTSE 250	22,376.02	▼ 1.36%
 FTSE AIM	1,248.31	▼ 0.62%
 EURO STOXX 50	4,064.30	▲ 0.61%
 NASDAQ COMPOSITE	14,503.95	▲ 5.49%
 DOW JONES	34,502.51	▼ 0.08%
 NIKKEI 225	28,791.53	▼ 0.24%

* US and UK markets closed 28/05/21 for the month of May, 31/05/21 US Memorial Day and UK Spring Bank Holiday

Gold is currently trading at around \$1,769 a troy ounce, a loss of 6.88% on the month. The precious metal is trading lower after the Fed brought forward its forecasts for a potential interest rate increase, with the stronger dollar also adding pressure. The oil price rose at month end, after US crude stockpiles fell for a sixth consecutive week. Brent Crude is currently trading at around \$74 per barrel, a gain of 7.84% on the month.

Government borrowing chasm narrows

The latest public sector finance statistics confirmed that government borrowing is declining more rapidly than the Office for Budget Responsibility (OBR) had predicted in its March Budget forecast.

Figures released by ONS revealed UK public sector net borrowing (the gap between the country's overall income and expenditure) totalled £24.3bn in May. Although this was the second-highest amount borrowed in any May since records began in 1993, it was £19.4bn lower than the amount borrowed in the same month last year and below the consensus forecast in a Reuters poll of economists.

It was also the second consecutive monthly undershoot of the OBR's most recent forecast, with year-to-date borrowing now £14.1bn under the spending watchdog's prediction. While the OBR did say that over a third of this was due to timing differences for EU divorce payments, lower spending and moderately stronger tax receipts also contributed to the outperformance of borrowing relative to forecast.

Additionally, the ONS data revealed that total public sector debt now stands at nearly £2.2trn, which equates to 99.2% of annual economic output. Responding to the borrowing figures, Chancellor Rishi Sunak again stressed his desire to get "the public finances on a sustainable footing" over the medium term.

Sales dip as shoppers eat out

Official statistics revealed an unexpected decline in retail sales during May as shoppers reduced their consumption at food stores, although more recent survey data suggests consumer demand remains strong.

According to ONS data, sales volumes fell by 1.4% between April and May, as the reopening of hospitality venues encouraged people to spend in restaurants rather than buying food from shops. As a result, the volume of sales at supermarkets fell significantly. In contrast, sales at non-food shops rose during May, with demand for outdoor furniture particularly strong.

Evidence from the latest Distributive Trades Survey published by the Confederation of British Industry (CBI), also suggests sales volumes strengthened last month. The survey's retail sales balance was +25 in June, up from +18 in May and the highest figure since August 2018. In addition, retailers said they expect sales in July to remain good for the time of year.

Commenting on the findings, CBI Principal Economist Ben Jones said, "After a generally gloomy 2021 so far, the sun finally shone for retailers in June. 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."

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