

Economic Review

of May 2023



Our monthly economic review is intended to provide background to recent developments in investment markets as well as to give an indication of how some key issues could impact in the future.

It is not intended that individual investment decisions should be taken based on this information; we are always ready to discuss your individual requirements. We hope you will find this review to be of interest.

UK growth forecasts upgraded

Revised projections released last month by both the Bank of England (BoE) and International Monetary Fund (IMF) suggest the UK economy is now set to avoid recession this year.

The BoE's latest forecast predicts the economy will grow by 0.25% across the whole of 2023, a significant upgrade from February's prediction of a 0.5% contraction. This improved outlook reflects a number of factors, including stronger than anticipated global growth, lower energy prices and the fiscal support announced by the Chancellor in his Spring Budget.

Updated IMF figures also show the UK is now unlikely to enter recession, with the international soothsayer predicting a growth rate of 0.4% for 2023; in comparison, its previous forecast had suggested the economy would contract by 0.3% over the course of this year. The IMF said growth would be helped by 'resilient demand' as well as falling energy prices and praised the UK authorities for taking 'decisive and responsible steps in recent months.'

The latest gross domestic product (GDP) figures published by the Office for National Statistics (ONS), however, highlight how fragile the recovery remains with growth still sluggish. Although GDP across the first three months of 2023 did edge up by 0.1%, a similar tepid pace as achieved during the final quarter of last year, monthly data

revealed an unexpectedly sharp drop in output during March, with GDP actually declining by 0.3% during the month.

Recently released data from the closely watched S&P Global/CIPS UK Purchasing Managers' Index (PMI), though, does suggest growth has picked up in the second quarter. May's preliminary headline reading came in at 53.9, lower than April's one-year high of 54.9, but comfortably above the 50 threshold that denotes growth in private sector output. Indeed, S&P Global noted that their PMI readings were consistent with 'GDP rising 0.4% in the second quarter.'

Interest rates rise again

Last month, the BoE announced another hike in its benchmark interest rate and insisted it will 'stay the course' in its battle to bring down inflation.

Following its latest meeting, which concluded on 10 May, the BoE's nine-member Monetary Policy Committee (MPC) voted by a 7-2 majority to raise Bank Rate by a further 0.25 percentage points. This was the 12th consecutive increase, taking rates to 4.5%, their highest level in almost 15 years.

Commenting after announcing the decision, BoE Governor Andrew Bailey made it clear that the Bank's next moves would depend on the trajectory of forthcoming data. However, Mr Bailey did stress that, "We have to stay the course to make sure inflation falls all the way back to the 2% target."

The minutes to the meeting also warned that the Bank now believes inflation will remain higher for a longer period, largely as a result of food price inflation which is 'likely to fall back more slowly than previously expected.' Its latest forecast, which was published alongside the rate decision, suggests inflation will fall to 5.1% by the end of this year, significantly higher than its previous forecast of 3.9%.

ONS data published two weeks after the MPC's announcement confirmed that the headline rate of inflation remains stubbornly high. While it did fall from 10.1% in March to 8.7% in April, as the extreme energy price hikes seen a year ago dropped out of the calculations, the figure was much higher than the consensus forecast in a Reuters poll of economists which had predicted a rate of 8.2%.

April's inflation data surprise has undoubtedly increased the likelihood of further rate hikes in the coming months. The next decision is due to be announced on 22 June with analysts now typically expecting another 0.25 percentage point rise.

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More optimistic outlook for retailers

Official retail sales statistics showed a slightly stronger-than-expected increase in sales volumes during April while survey evidence points to modestly rising levels of optimism within the retail sector.

The latest ONS retail sales figures revealed signs of consumer spending resilience, with volumes rising by 0.5% in April following March's sharp decline when sales were hit by unusually wet weather. Furthermore, across the whole of the February-to-April period, sales volumes grew by 0.8% compared to the previous three months; this represents the largest increase recorded on this measure since August 2021.

Evidence from the recently released CBI Distributive Trades Survey suggests the trading environment does remain challenging with sales volumes dipping in the year to May. Sales are expected to stabilise in June, however, and retailers

generally expect to see a modest improvement in their business situation over the coming three months.

Commenting on the survey findings, CBI Principal Economist Martin Sartorius said, "Looking ahead, there are some reasons for retailers to be more optimistic about the outlook. Consumer sentiment has been improving and households' energy bills are set to decline from July. The resulting boost to incomes should help support retail sales going into the second half of this year."

Unemployment rate edges higher

The latest batch of labour market statistics suggests a further softening in the jobs market with a rise in the rate of unemployment and another fall in the number of job vacancies.

ONS figures released last month showed that the unemployment rate during Q1 edged up to 3.9%, a 0.1 percentage point increase from the previous three months. This was higher than the median forecast in a Reuters poll

of economists which had predicted the rate would hold steady at 3.8%.

In addition, the estimated total number of job vacancies fell by 55,000 during the three months to April, hitting its lowest level since mid-2021. This was the tenth consecutive decline, with ONS saying that companies continued to cite 'economic pressures' as a factor in holding back on recruitment.

The labour market update also reported the number of people not working due to long-term sickness at a new record high. Over two and a half million people are now not working due to health issues, with ONS saying the increase has been driven by a rise in mental health conditions among younger age groups, people suffering with back and neck pain, and a rise in post-viral fatigue.

The latest ONS retail sales figures revealed signs of consumer spending resilience



All details are correct at the time of writing (01 June 2023)

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