HANBURY WEALTH

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Economic Review

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UK economy rebounds in November

Official statistics show the economy returned to growth in November, although analysts believe it remains a close call as to whether or not the UK will once again manage to avoid a recession.

Figures released last month by the Office for National Statistics (ONS) showed the UK economy grew by 0.3% in November following a contraction of a similar magnitude during the previous month. ONS said the services sector led the rebound, with Black Friday providing a boost to retailers, warehousing and couriers, while car leasing and computer games firms also enjoyed a buoyant month.

Despite November's bounce back, ONS noted that the longer-term picture remains one of little growth over the past year. Indeed, output actually shrank by 0.2% in the three months to the end of November, and the statistics agency said a contraction or even flat data in December could lead to a second successive quarter of falling output, and thereby tip the economy into a shallow technical recession.

Data from the latest S&P Global/CIPS UK Purchasing Managers' Index (PMI) released towards the end of last month, however, paints a more positive picture with business confidence rising to its highest level since last May. The preliminary headline economic growth indicator also rose, up from 52.1 in December to 52.5 in January, beating analysts' expectations and pointing to a stronger than expected start to 2024 for the UK economy.

Commenting on the findings, S&P Global Market Intelligence's Chief Business Economist Chris Williamson said, *"UK business activity growth accelerated for a third straight month in January, according to early PMI survey data, marking a promising start to the year. The survey data point to the economy growing at a quarterly rate of 0.2% after a flat fourth quarter, therefore skirting recession and showing signs of renewed momentum."*

Surprise uptick in inflation rate

Last month's release of consumer price statistics revealed a small increase in the UK headline rate of inflation, bucking analysts' expectations for a further easing in price pressures.

Data published by ONS showed the Consumer Prices Index (CPI) 12-month rate – which compares prices in the current month with the same period a year earlier – stood at 4.0% in December. This was up from November's 3.9% figure and was also higher than the 3.8% consensus forecast from a Reuters poll of economists.

ONS said the increase, which represented the first inflation uptick in 10 months, was partly driven by a sharp rise in tobacco prices due to duty increases. There were also material upward contributions from the recreation, airfare and clothing sectors, although these were partially offset by a fall in food inflation with prices in this sector still rising but at a much lower rate than in the comparable period last year.

Analysts typically expect January's inflation rate to rise as a result of base effects and there are a number of notable risks to the outlook particularly relating to disruption of shipping in the Red Sea. However, most economists are still predicting the downward trajectory will resume with potentially large declines forecast this spring.

Capital Economics, for instance, recently suggested CPI inflation could drop below 2% by April. The independent research firm also said this could result in the UK's pace of price growth actually breaching the 2% mark before both the US and Eurozone.

While December's inflation rise did dent market expectations of an early cut in interest rates, analysts do still typically expect the Bank of England to sanction a series of rate reductions this year. Indeed, a recent Reuters poll found that just over half of economists expect the first cut to be sanctioned before mid-2024.

Markets (Data compiled by TOMD)

Major global indices were mixed at the end of January. On the last trading day of the month the FTSE 100 lost ground ahead of imminent interest rate decisions in the UK and US.

In the UK, the FTSE 100 index closed the month on 7,630.57, a loss of 1.33%, while the mid cap orientated FTSE 250 closed January 1.68% lower on 19,357.95. The FTSE AIM closed on 754.75, a loss of 1.12% in the month.

On 31 January, the Federal Reserve decided to retain interest rates for another month, whilst making it clear that it needs to see more progress on inflation before reducing borrowing costs. The Dow closed the month up 1.22% on 38,150.30, while the tech-orientated NASDAQ closed January up just over 1% on 15,164.01. At month end the broader market came under pressure as earnings results from some technology stocks failed to live up to expectations.

Meanwhile, the Euro Stoxx 50 closed the month 2.80% higher, on 4,648.40. The Nikkei 225 ended January on 36,286.71, up 8.43%. During the month, Japan's benchmark index broke past the 35,000 mark, for the first time since February 1990.

On the foreign exchanges, the euro closed the month at €1.17 against sterling. The US dollar closed at $1.27 against sterling and at $1.08 against the euro.

Index	Value (31/01/24)	% Movement (since 29/12/23)
FTSE 100	7,630.57	-1.33%
FTSE 250	19,357.95	-1.68%
FTSE AIM	754.75	-1.12%
EURO STOXX 50	4,648.40	+2.80%
NASDAQ COMPOSITE	15,164.01	+1.02%
DOW JONES	38,150.30	+1.22%
NIKKEI 225	36,286.71	+8.43%

Gold closed the month trading around $2,053 a troy ounce, a monthly loss of 1.21%. Brent crude closed January trading at around $80 a barrel, a monthly gain of 4.87%. Oil posted its first monthly gain since September.

Government borrowing lower than expected

The latest public sector finance statistics revealed a smaller-than-expected budget deficit providing the Chancellor with more room for manoeuvre as he prepares to deliver his Spring Statement in March.

ONS data showed government borrowing fell to £7.8bn in December, nearly half the level predicted in a Reuters poll of economists. This left the fiscal year-to-date total at £119bn, almost £5bn below the Office for Budget Responsibility's November forecast produced for the Autumn Statement, principally as a result of lower than anticipated inflation reducing debt interest payments.

Prior to release of the data, the Chancellor had hinted at potential pre-election tax cuts when he delivers his Spring Budget on 6 March. Speaking during a visit to the World Economic Forum in Davos, Mr Hunt said he wanted to move in the direction of cutting taxes and noted that countries with lower taxes *"are more dynamic, more competitive and generate more money for public services."*

Analysis released late last month by the Institute for Fiscal Studies, however, suggests the next government is likely to face the toughest challenge since the 1950s to bring down the country's high debt burden. The economic think tank also warned that tax cuts now could compound the problem.

Retail sales fall sharply

Data released last month by ONS revealed that the UK retail sector suffered its sharpest decline in sales volumes for almost three years.

Official retail sales statistics showed sales volumes fell by 3.2% in December; this figure was worse than all predictions in a Reuters poll of economists with the consensus forecast pointing to a 0.5% fall. The monthly decline was also the largest since January 2021 when the reintroduction of pandemic restrictions heavily impacted sales. While ONS did say people appeared to have shopped earlier this year in order to take advantage of Black Friday sales, they also noted evidence of consumers spending less on gifts while food sales also notably declined in the run-up to Christmas.

The latest CBI Distributive Trades Survey suggests the retail environment remains extremely challenging with year-on-year sales volumes in January falling at the fastest pace since the pandemic. The survey also found that retailers anticipate a similar rate of contraction in February.

CBI Principal Economist Martin Sartorius said, *"Retailers reported a further deterioration in activity at the start of 2024. Looking ahead, demand conditions in the sector will remain challenging as higher interest rates continue to feed through to mortgage payments and household incomes."*

All details are correct at the time of writing (01 February 2024)