

# Economic Review

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## Prospect of rate cut moves closer

While last month once again saw the Bank of England (BoE) leave interest rates unchanged at a 16-year high, the minutes to the Bank's Monetary Policy Committee (MPC) meeting signalled a notable change in tone and economists now view a rate cut as the most likely outcome when the MPC next convenes.

At its latest meeting, which concluded on 19 June, the MPC voted by a 7-2 majority to maintain Bank Rate at 5.25%. For the second month running, the two dissenting voices both called for an immediate quarter-point reduction while, for the first time, some other members described their thinking as being "finely balanced."

The minutes to the meeting also highlighted this potentially significant shift in stance, noting that the MPC will now be looking at whether 'the risks from inflation persistence are receding.' The minutes concluded, 'On that basis, the Committee will keep under review for how long Bank Rate should be maintained at its current level.'

Last month's inflation statistics published by the Office for National Statistics (ONS) prior to the MPC announcement, revealed that the headline rate has now returned to its 2% target level for the first time in almost three years. In a statement released alongside the MPC decision, BoE Governor Andrew Bailey described that as "good news." He also said that policymakers need to be sure inflation will remain low and added, "that's why we've decided to hold rates for now."

July's release of economic data, particularly in relation to wage growth and services inflation, is likely to prove pivotal to the next MPC decision which is due to be announced on 1 August. A recent Reuters survey, however, found that a large majority of economists now expect an imminent cut, with all but two of the 65 polled predicting an August rate reduction.



## Survey data signals slowing pace of growth

Official data published last month revealed that the UK economy failed to grow in April, while survey evidence points to a more recent slowdown in private sector output due to rising uncertainty during the run up to the General Election.

The latest monthly economic growth statistics released by ONS showed the UK economy flatlined in April, as most economists had predicted. Some sectors did report growth; services output, for instance, was up by 0.2%, a fourth consecutive monthly rise, with both the information and technology, and the professional and scientific industries reporting rapid expansion across the month.

Other sectors, however, suffered a contraction, with ONS saying some were hit by April's particularly wet weather. A number of retail businesses, for example, told the statistics agency that above average levels of rainfall had dented their trade during the month. Activity across the construction industries was believed to have been impacted by the wetter weather as well.

More recent survey data also suggests private sector output is now growing at its slowest rate since the economy was in recession last year – preliminary data from the S&P Global/ CIPS UK Purchasing Managers' Index (PMI) revealed that its headline economic growth indicator fell to 51.7 in June from 53.0 in May, a larger decline than analysts had been expecting. While the latest figure does remain above the 50-threshold denoting growth in private sector output, it was the indicator's lowest reading since November 2023.








Commenting on the data, S&P Global Market Intelligence's Chief Business Economist Chris Williamson said, "Flash PMI survey data for June signalled a slowing in the pace of economic growth. The slowdown in part reflects uncertainty around the business environment in the lead up to the General Election, with many firms seeing a hiatus in decision making pending clarity on various policies."

As June drew to a close, global indices were mixed as a raft of economic data was released. Stronger-than-expected GDP data in the UK at month end fuelled speculation over the timing of interest rate cuts, while in the US, the latest inflation reading boosted market sentiment, and unemployment data came in below estimates.

Although the FTSE 100 registered its first monthly decline in four months, the upward revision to Q1 GDP on 28 June supported sentiment around UK-focused equities at month end. The main UK index closed June on 8,164.12, a loss of 1.34% during the month, while the FTSE 250 closed the month 2.14% lower on 20,286.03. The FTSE AIM closed on 764.38, a loss of 5.14% in the month. The Euro Stoxx 50 closed June on 4,894.02, down 1.80%. In Japan, the Nikkei 225 closed the month on 39,583.08, a monthly gain of 2.85%. Meanwhile, in the US the Dow closed the month up 1.12% on 39,118.86, and the NASDAQ closed June up 5.96% on 17,732.60.

On the foreign exchanges, the euro closed the month at €1.17 against sterling. The US dollar closed at \$1.26 against sterling and at \$1.07 against the euro.

Gold closed June trading around \$2,330.90 a troy ounce, a monthly loss of 0.74%. Brent crude closed the month

Index	Value		% Movement (since 31/05/24)
	Value (28/06/24)		
 FTSE 100	8,164.12	▼	-1.34%
 FTSE 250	20,286.03	▼	-2.14%
 FTSE AIM	764.38	▼	-5.14%
 EURO STOXX 50	4,894.02	▼	-1.80%
 NASDAQ COMPOSITE	17,732.60	▲	+5.96%
 DOW JONES	39,118.86	▲	+1.12%
 NIKKEI 225	39,583.08	▲	+2.85%

trading at \$84.78 a barrel, a gain during the month of 4.18%. The price rose during the month as indicators suggest an expanded military conflict in the Middle East, could lead to further disruption to the production of OPEC+ member Iran.

## Retail sales rebound strongly in May

The latest official retail sales statistics revealed strong growth in sales volumes during May after heavy rain dampened activity in the previous month, although more recent survey data does suggest the retail environment remains challenging.

ONS data published last month showed that total retail sales volumes rose by 2.9% in May, a strong bounce back from April's 1.8% decline. ONS said sales volumes increased across most sectors, with clothing retailers and furniture stores enjoying a particularly strong rebound from the previous month's weather-impacted figures.

Evidence from the latest CBI Distributive Trades Survey, however, suggests May's recovery has proved to be short-lived, with its headline measure of sales volumes in the year to June falling to -24% from +8% the previous month. While the CBI did note that unseasonably cold weather may have had an impact on June's figures, the data certainly suggests that retailers still face a tough trading environment.

CBI Interim Deputy Chief Economist Alpesh Paleja said, "Consumer fundamentals are improving, with inflation now at the Bank of England's 2% target and real incomes rising. But it's clear that households are still struggling with the legacies of the cost-of-living crisis, with the level of prices still historically high in some areas."

## Financial challenges await new government

Data released by ONS last month showed UK public sector debt now stands at its highest level for over 60 years, while the Institute for Fiscal Studies (IFS) has warned that the next government will face a fiscal 'trilemma.'

The latest public sector finance statistics revealed that government borrowing totalled £15bn in May, the third highest amount ever recorded for that month. Although the figure was £800m higher than May last year, it did come in below analysts' expectations and was £600m less than the Office for Budget Responsibility had predicted in its latest forecast.

Despite this, the data also showed that public sector net debt as a percentage of economic output has now risen to 99.8%. This was up 3.7 percentage points from last May's figure, leaving this measure of debt at its highest level since 1961.

Analysis by the IFS has also highlighted the scale of the financial challenge awaiting whichever party wins the forthcoming General Election. The IFS said that, unless economic growth is stronger than expected, the incoming government will face a 'trilemma,' either having to raise taxes more than their manifestos imply, implement cuts to some areas of public spending or allow national debt to continue rising.

All details are correct at the time of writing (1 July 2024)

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