HANBURY WEALTH

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Economic Review

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Economy set for short term Budget boost

New economic projections produced by the Office for Budget Responsibility (OBR) suggest the Labour administration's first Budget will provide only a *'temporary boost'* to UK economic output.

Chancellor Rachel Reeves revealed the independent fiscal watchdog's latest forecast during her Autumn Budget delivered to the House of Commons on 30 October. The updated figures predict the economy will expand by 1.1% this year and 2.0% in 2025, slightly higher than the OBR's March forecast, with growth then falling back across the remainder of this Parliament. Taken together, the OBR concludes that the Budget's overall impact will leave *'the level of output broadly unchanged at the forecast horizon.'*

Prior to the Budget, release of the latest monthly gross domestic product (GDP) data revealed that the UK economy returned to growth after two consecutive months of stagnation. The Office for National Statistics (ONS) figures showed the economy expanded by 0.2% in August, with all major sectors posting some growth. Despite August's pick up, ONS warned that the broader picture in recent months was one of *'slowing growth'* when compared to the first half of the year.

This loss of momentum was also highlighted in the latest S&P Global/CIPS UK Purchasing Managers' Index (PMI), with its preliminary headline growth indicator falling to 51.7 in October from 52.6 the previous month. While remaining above the 50 threshold that denotes expansion in private sector output, this latest reading was the lowest since last November.

Commenting on the survey, S&P Global Market Intelligence's Chief Business Economist Chris Williamson said, *"Business activity growth has slumped to its lowest for nearly a year in October as gloomy government rhetoric and uncertainty ahead of the Budget dampened business confidence and spending. The early PMI data are indicative of the economy growing at a meagre 0.1% quarterly rate in October."*

UK inflation falls sharply

Official consumer price statistics released last month revealed a larger than expected fall in the rate of inflation, potentially paving the way for further interest rate cuts in the coming months.

Data published by ONS showed the annual headline rate of inflation dropped from 2.2% in August to 1.7% in September. ONS said the fall, which took the rate to its lowest level since April 2021, was primarily driven by lower airfares and petrol prices.

The decline was greater than economists had anticipated, with the consensus forecast in a Reuters poll predicting a September reading of 1.9%. It also took the figure decisively below the Bank of England's (BoE) 2% target, and further fuelled market expectations for more interest rate cuts this year.

Last month, however, also saw two of the BoE's nine-member rate-setting Monetary Policy Committee (MPC) advocate the continuation of a cautious approach to monetary easing. Megan Greene, for instance, suggested September's sharp inflation fall had been driven by volatile components and again stated her preference for rate cuts to be gradual, while Catherine Mann said the cooling of price growth still had *"a long way to go"* for the Bank to hit its 2% target over the medium term.

In early October though, BoE Governor Andrew Bailey (another MPC member) told the Guardian that, provided there was further welcome news on the inflation front, he felt the Bank could become *"a bit more aggressive"* in its rate-cutting approach. In a recent Reuters survey, all 72 of the economists polled said they believe a quarter-point rate reduction would be announced after this month's MPC meeting on 7 November.

Market expectations for the speed of monetary easing over the coming 12 months, however, eased back after the Budget, as the Chancellor's big spending plans raised fears of a pick-up in inflationary pressures next year.

Markets (Data compiled by TOMD)

UK indices moved lower on the last day of October as markets continued to digest the Budget announcement, during which Chancellor Rachel Reeves unveiled £40bn of tax rises. On 31 October, the Institute for Fiscal Studies (IFS) warned about the likelihood of further tax rises following the Budget.

The FTSE 100 index closed October on 8,110.10, a loss of 1.54%, while the mid cap focused FTSE 250 closed the month 3.16% lower on 20,388.96. The FTSE AIM closed on 737.10, a loss of 0.45% in the month. The Euro Stoxx 50 closed the month on 4,827.63, down 3.46%. At month end, the Bank of Japan retained interest rates at their ultra-low level as it monitors global economic developments and potential risks to domestic recovery. The Nikkei 225 closed October on 39,081.25, a monthly gain of 3.06%.

With voters poised to take to polling stations stateside, robust economic data at month end confused the backdrop for imminent Federal Reserve rate cuts, as US stocks and government bonds fell. The Dow Jones closed the month down 1.34% on 41,763.46. The tech-orientated NASDAQ closed the month down 0.52% on 18,095.15.

On the foreign exchanges, the euro closed the month at €1.18 against sterling. The US dollar closed at $1.28 against sterling and at $1.08 against the euro.

Index	Value Value (31/10/24)	% Movement (since 30/09/24)
FTSE 100	8,110.10	-1.54%
FTSE 250	20,388.96	-3.16%
FTSE AIM	737.10	-0.45%
EURO STOXX 50	4,827.63	-3.46%
NASDAQ COMPOSITE	18,095.15	-0.52%
DOW JONES	41,763.46	-1.34%
NIKKEI 225	39,081.25	+3.06%

Gold closed October trading at $2,734.15 a troy ounce, a monthly gain of 3.96%. Towards the end of the month, the precious metal traded higher as demand surged ahead of Diwali and the US election; uncertainty over the election outcome has made investors focus on the safe haven asset. Brent crude closed the month trading at $72.62 a barrel, a gain over the month of 1.35%. Oil prices stabilised at month end after rallying due to robust fuel demand in the US and reports that OPEC+ may delay an increase in output.

Retail sales rise for third successive month

Recently published ONS statistics showed that retail sales rose for the third month in a row in September, although more up-to-date survey data does point to a recent slowdown as consumers paused spending ahead of the Budget.

The latest official retail sales figures revealed that total sales volumes rose by 0.3% in September, with ONS saying tech stores were the main driver of growth, reflecting a sales boost from the new iPhone launch. September's growth defied economists' expectations for a monthly 0.3% decline and, combined with July and August's strong gains, resulted in sales volumes rising by 1.9% across the whole of the third quarter, the joint largest increase since mid-2021.

More recent survey evidence, however, does suggest consumers became more cautious in the run-up to the Budget. The latest GfK Consumer Confidence index, for instance, found that sentiment fell to a seven-month low in October as concerns over possible tax hikes hit confidence.

Data from last month's CBI Distributive Trades Survey also points to a recent dip in consumer spending. The CBI noted that retail sales volumes *'slipped back slightly in October,'* adding that some retailers had highlighted *'increased consumer caution'* ahead of the Autumn Budget.

More signs of a cooling jobs market

The latest batch of labour market numbers revealed fresh evidence of a softening in the UK jobs market with both an easing in pay growth and a further fall in the overall level of vacancies.

Statistics released by ONS last month showed that average weekly earnings excluding bonuses rose at an annual rate of 4.9% in the three months to the end of August. This figure was down from 5.1% in the previous three-month period and represents the slowest rate of pay growth for over two years.

Adding to signs of a cooling jobs market, the release also revealed another decline in the level of vacancies. In total, ONS said there were 34,000 fewer job vacancies reported between July and September 2024 compared to the previous three-month period; this represents the 27th consecutive monthly fall in the number of vacancies.

Last month also saw a number of recruitment firms report a more recent slowdown. Robert Walters, for instance, noted a pause in jobs market activity in the run-up to the Autumn Budget, while James Reed, CEO of recruitment consultancy Reed, said the UK labour market was experiencing *"a slow-motion car crash"* with firms lacking the confidence to hire new staff.

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