

1 Basepoint Business Centre Waterberry Drive Waterlooville PO7 7TH

© 01243 850975

⊠ enquiries@financialcompass.co.uk

@ www.financialcompass.co.uk

ECONOMIC **REVIEW**

OF JULY 2023



UK INFLATION RATE DECLINES

Data released by the Office for National Statistics (ONS) showed the UK inflation rate fell by more than expected in June, leading analysts to predict that interest rates are now likely to rise less sharply than previously feared.

The latest inflation statistics revealed that the Consumer Prices Index (CPI) 12-month rate – which compares prices in the current month with the same period a year earlier – stood at 7.9% in June. This was significantly below the previous month's figure of 8.7% and also lower than the 8.2% consensus forecast from a Reuters poll of economists.

Core CPI inflation, which excludes volatile elements such as energy, food, alcohol and tobacco and is used by the Bank of England (BoE) to gauge underlying price pressures, also dropped by more than expected. Economists had predicted the core measure of price growth would remain at May's three-decade high of 7.1%, but instead it dropped to 6.9%.

ONS noted that the largest downward pressure on June's CPI rate came from petrol and diesel prices which declined by 23% compared to year earlier levels. The price of some other goods and services, however, continued to rise sharply with sugar up by 54% and transport insurance costs up by 48%.

Although the CPI inflation rate does now stand at its lowest level in over a year, the figure is still almost four times higher than the BoE's 2% target. Economists therefore continue to expect the Bank to sanction further monetary tightening in the months ahead.

The peak in the current interest rate cycle, though, is now likely to be lower than forecasts had suggested prior to release of June's inflation data. According to a recent Reuters poll, economists now typically expect Bank Rate to reach a high point of 5.75% during the final quarter of this year.

IMF UPGRADES ECONOMIC GROWTH FORECAST

The International Monetary Fund (IMF) has raised its 2023 global growth forecast, but warned challenges remain and that the balance of risks continue to be 'tilted to the downside'.

In its latest assessment of world economic prospects, the IMF said inflation was coming down and acute stress in the banking sector had receded. The international soothsayer predicts an overall global growth rate of 3.0% for 2023, lower than the 2022 figure of 3.5%, but 0.2 percentage points higher than its previous estimate produced in April.

The latest projections also included a significant UK upgrade, with the IMF now forecasting growth of 0.4% across 2023, a 0.7 percentage point increase from April's figure. While this does mean the IMF is now predicting some growth, the UK is expected to be the second most sluggish of the G7 economies this year, with only Germany forecast a lower rate.

Meanwhile, the latest monthly growth figures released by ONS showed the UK economy shrank by 0.1% in May, partly because of the extra bank holiday for the King's Coronation reducing the number of working days in the month. The figure, however, was ahead of analysts' expectations, while ONS noted that anything better than a 0.1% decline in June would result in the economy avoiding a contraction for the second quarter as a whole.

Survey data released towards the end of last month, though, does still point to a relatively weak outlook, with the preliminary reading from the S&P Global/CIPS Composite Purchasing Managers' Index dropping to a six-month low of 50.7 in July. While the figure does remain just above the 50 threshold that denotes growth in private sector output, S&P Global Market Intelligence's Chief Business Economist Chris Williamson noted that forward-looking indicators "all point to growth weakening further in the months ahead".

ECONOMIC REVIEW OF JULY 2023

BUDGET DEFICIT DECLINES IN JUNE

Chancellor Jeremy Hunt has again ruled out a rush to cut taxes despite the latest public sector finance statistics showing government borrowing for the first three months of the fiscal year was lower than expected.

ONS data released last month showed government borrowing in June totalled £18.5bn. While this represents the third-highest June ever recorded, it was £400m below the same month last year and lower than analysts' expectations. It also left the fiscal year-to-date deficit £7.5bn below the most recent forecast from the Office for Budget Responsibility (OBR), with this downside surprise reflecting stronger than predicted tax receipts.

Analysts, however, still typically believe there remains little scope for potential tax cuts before next year's general election. Reacting to the figures on the day the data was released, the Chancellor appeared to concur, saying, "Now more than ever we need to maintain discipline with the public finances."

A separate report on fiscal risks published last month by the OBR also warned that the country's public finances are currently in a 'vulnerable position'. The report also stressed that, in the coming decades, government finances will come under growing pressure as an ageing society inevitably increases costs and reduces tax receipts.

HOT WEATHER SPARKS RETAIL SALES RISE

The latest official set of retail sales statistics revealed stronger than expected growth in sales volumes as the hottest June on record provided a boost to the retail sector.

According to ONS data published last month, total retail sales volumes rose by 0.7% in June. This growth in the quantity of goods bought by consumers was higher than May's downwardly revised 0.1% monthly increase and also stronger than the 0.2% consensus forecast predicted in a Reuters poll of economists.

ONS said supermarkets were a key driver of June's rise, with food sales benefitting from rising temperatures and a rebound after the coronation had disrupted spending patterns in May. The hotter weather also encouraged more people on to the high street, leading to both department stores and furniture shops enjoying a strong month.

Responding to the figures, British Retail Consortium Chief Executive Helen Dickinson said, "June's sunshine gave retail sales growth a boost as customers readied themselves for the summer season. Nonetheless, consumer confidence remains fragile, and with households feeling the pinch from high inflation and rising interest rates they held back on making big ticket purchases. Retailers are hopeful that consumer confidence will improve over the coming months as inflation eases."



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

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.

ECONOMIC REVIEW OF JULY 2023