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Economic Review

September 2024

UK economic growth forecast upgraded

An updated forecast published last month by the Organisation for Economic Co-operation and Development (OECD) suggests the UK will be the joint-second fastest growing economy among the G7 nations this year.

According to the OECD's latest projections, the UK economy is set to expand by 1.1% across the whole of 2024, a significant upgrade from the think tank's previous estimate of 0.4% which was released in May. The new forecast places the UK alongside Canada and France in the G7 rankings, with only the US economy forecast to grow more strongly this year.

Gross domestic product (GDP) statistics released last month by the Office for National Statistics (ONS), however, did show that the UK economy unexpectedly failed to grow during July, after also flatlining in June. Despite the lack of growth across both of these months, ONS did note that *'longer term strength in the services sector'* had resulted in some growth across the economy during the three months to July as a whole.

Data from the latest S&P Global/CIPS UK Purchasing Managers' Index (PMI) also suggests growth across the UK private sector has softened more recently, with its preliminary headline indicator standing at 52.9 in September, down from August's figure of 53.8. This does, however, mean that for the eleventh consecutive month, the Index remained above the 50 threshold that denotes expansion in private sector output.

Commenting on the findings, S&P Global Market Intelligence's Chief Business Economist Chris Williamson acknowledged that the latest data did suggest output growth in both manufacturing and services had moderated last month. He added, *"A slight cooling of output growth across manufacturing and services in September should not be seen as too concerning, as the survey data are still consistent with the economy growing at a rate approaching 0.3% in the third quarter."*

Interest rates set to gradually head lower

While last month did see the Bank of England (BoE) maintain interest rates at their current level of 5%, the Bank's Governor Andrew Bailey also stated his optimism that rates are now on a downward path.

At its latest meeting, which concluded on 18 September, the BoE's Monetary Policy Committee (MPC) voted by an 8–1 majority to leave Bank Rate on hold. The one dissenting voice voted for what would have been a second successive quarter-point cut following the committee's decision to reduce rates in early August, the first reduction since 2020.

The minutes to the meeting, however, did strike a fairly cautious note. They stated that the decision to hold rates was *'guided by the need to squeeze persistent inflationary pressures'* out of the economy and that monetary policy would need to *'remain restrictive'* until the risks to inflation have *'dissipated further.'*

On the same day the MPC meeting ended, ONS published the latest inflation data, which revealed that August's headline annual rate was unchanged at 2.2%. Although this did mean the rate therefore remained marginally ahead of the BoE's 2% target level, the figure was exactly in line with analysts' expectations.

Speaking a few days after the inflation figures were released, the BoE Governor said he was *"very encouraged"* by the downward path of inflation over the past two years and that the Bank should be able to reduce rates as it becomes more confident inflation will remain close to target. Mr Bailey concluded, *"I do think the path for interest rates will be downwards, gradually."*

A Reuters poll released last month also revealed that most economists expect one more rate cut this year, with a large majority predicting the BoE will sanction a reduction after the MPC's next meeting, which is scheduled for 7 November.

Markets (Data compiled by TOMD)

An escalation of the conflict in the Middle East weighed on markets at the end of September, with investors and traders closely monitoring developments in the region.

At month end, stocks retreated following implications from Federal Reserve Chairman Jerome Powell that further interest rate cuts are likely to occur at a more measured pace.

Across the pond, the Dow Jones closed the month up 1.85% on 42,330.15. The tech-orientated NASDAQ closed the month up 2.68% on 18,189.17.

On home shores, the FTSE 100 index closed the month on 8,236.95, a loss of 1.67%, while the FTSE 250 closed the month 0.16% lower on 21,053.19. The FTSE AIM closed on 740.43, a loss of 4.15% in the month. The Euro Stoxx 50 closed the month on 5,000.45, up 0.86%. In Japan, the Nikkei 225 closed September on 37,919.55, a monthly loss of 1.88%.

On the foreign exchanges, the euro closed the month at €1.20 against sterling. The US dollar closed at $1.33 against sterling and at $1.11 against the euro.

Brent crude closed September trading at $71.65 a barrel, a loss over the month of 6.74%. The conflict in the Middle East is causing some price volatility. OPEC+ plans to begin increasing production in December is pressurising prices, while weak demand in China also weighs. Gold closed the month trading at $2,629.95 a troy ounce, a monthly gain of 4.64%. Prices retreated at month end, reversing recent strong gains as increased safe-haven demand prompted a rally in the precious metal.

Index	Value Value (30/09/24)		% Movement (since 30/08/24)
FTSE 100	8,236.95	▼	-1.67%
FTSE 250	21,053.19	▼	-0.16%
FTSE AIM	740.43	▼	-4.15%
EURO STOXX 50	5,000.45	▲	+0.86%
NASDAQ COMPOSITE	18,189.17	▲	+2.68%
DOW JONES	42,330.15	▲	+1.85%
NIKKEI 225	37,919.55	▼	-1.88%

Retail sales stronger than expected

The latest official retail sales statistics revealed a healthy growth in sales volumes during August, while more recent survey data points to further modest improvement both last month and in October.

Figures released by ONS showed that total retail sales volumes rose by 1.0% in August, following upwardly revised monthly growth of 0.7% in July. ONS reported that August's rise, which was higher than economists had predicted, was boosted by warmer weather and end-of-season sales.

Evidence from last month's CBI Distributive Trades Survey also suggests retailers expect the summer sales improvement to have continued into the autumn period, with its annual retail sales gauge rising to +4 in September from -27 in August. In addition, retailers' expectations for sales in the month ahead (October) rose to +5; this represents the strongest response to this question since April 2023.

CBI Principal Economist Martin Sartorius said retailers would *"welcome"* the modest sales growth reported in the latest survey. He also added a note of caution saying, *"While some firms within the retail sector are beginning to see tailwinds from rising household incomes, others report that consumer spending habits are still being affected by the increase in prices over the last few years."*

National debt looks set to soar

Analysis published last month by the Office for Budget Responsibility (OBR) suggests national debt could triple over the coming decades if future governments take no action.

In its latest Fiscal Risks and Sustainability Report, the OBR said debt is currently on course to rise from almost 100% of annual GDP to 274% of GDP over the next 50 years due to pressures including an ageing population, climate change and geopolitical risks. It also warned that, without any change in policy or a return to post-war productivity levels, the public finances were unsustainable over the long term, and that *'something's got to give.'*

The OBR is also tasked with producing a more detailed five-year outlook for the country's finances that will be published alongside Chancellor Rachel Reeves' first Budget, due to be delivered on 30 October. The Chancellor has previously warned the Budget will involve *"difficult decisions"* on tax, spending and welfare.

Data released last month by ONS showed that government borrowing in August totalled £13.7bn, the highest figure for that month since 2021. This took borrowing in the first five months of the financial year to £64.1bn, £6bn higher than the OBR forecast at the last Budget.

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