

News in Review

15 September 2021



"This rise will impact the wider economic recovery"

Over the past seven days, government plans to raise National Insurance contributions to fund the health and social care system have continued to feature prominently in the news headlines. Last Wednesday, despite warnings of a mass Tory rebellion, MPs voted by 319 votes to 248 to approve the new 'health and social care levy'. Earlier that day, the Prime Minister had defended the move, insisting it was "the reasonable and the fair approach", despite it breaking a key manifesto commitment.

The decision, however, came under intense fire from business groups. Manufacturers' organisation, Make UK, described it as 'ill-timed as well as illogical,' while the Federation of Small Businesses said the tax hike marks 'an anti-jobs, anti-small business, anti-start-up manifesto breach.' British Chambers of Commerce (BCC) Head of Economics, Suren Thiru, said, "This rise will impact the wider economic recovery by landing significant costs on firms when they are already facing a raft of new cost pressures and dampen the entrepreneurial spirit needed to drive the recovery."

UK growth rate slows sharply

According to the latest gross domestic product statistics published last Friday, the UK economy grew by 0.1% in July. While this represents a sixth consecutive month of growth, the increase was much lower than June's figure of 1% and significantly below the consensus forecast of 0.6% taken from a Reuters poll of economists. Analysts said the slowdown was primarily due to July's upsurge in COVID cases and the

'pingdemic', which left many workers self-isolating at home. In addition, the figures highlight the ongoing impact of supply chain problems.

Trade deficit on the rise

Other data released last Friday showed Britain's goods trade deficit at a seven-month high of £12.7bn in July. This widening was driven by a 6.5% fall in goods exports to the EU, which was only partially offset by a 5% rise in exports to non-EU countries.

Data published the previous day revealed that Germans spent nearly 11% less on British goods during the first six months of 2021, with the UK now expected to drop out of Germany's top 10 trading partners by the end of this year for the first time since 1950. BCC Head of Trade Policy, William Bain, commented, "Exports to the EU fell in July. Taken in conjunction with German trade data, the UK is clearly doing less trade with the EU than three years ago. Overall, the figures remain concerning."

Labour market recovery continues

There was brighter news on the jobs front though, with Office for National Statistics data released on Tuesday showing the labour market continuing to recover. The latest official figures put employee numbers back at pre-COVID levels; job vacancies at an all-time high, while unemployment continues to fall. This situation, however, is creating problems for employers, with a survey published last week by the Recruitment and Employment Confederation reporting the most severe shortage of job candidates on record.

Other data released last week showed the number of people on furlough stood at 1.6 million at the end of July, 340,000 fewer than the previous month. Estimates suggest up to a million employees could still be on furlough when the scheme winds down at the end of September and this continues to cast a high degree of uncertainty over the labour market. The Confederation of British Industry recently warned that, while the end of furlough will inevitably bring some people back into the jobs market, it will not be a 'panacea' that will 'magically fill labour supply gaps.'

US-China trade relations

Last week also saw hopes of a reset to the strained US-China relationship. In their first conversation for seven months, US President Joe Biden spoke by phone to his Chinese counterpart Xi Jinping last Thursday night. The White House said the 90-minute call had been initiated by Mr Biden and that the two leaders had a "broad, strategic discussion". The pair discussed the "responsibility of both nations to ensure competition does not veer into conflict" and this has raised hopes of a potential improvement in US-China trade relations.

Autumn and Winter Plan

On Tuesday, the government announced measures to deal with rising COVID cases in England over the winter. If Plan A is not sufficient to prevent "unsustainable pressure" on the NHS, Plan B will be required as a "last resort."

Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.