

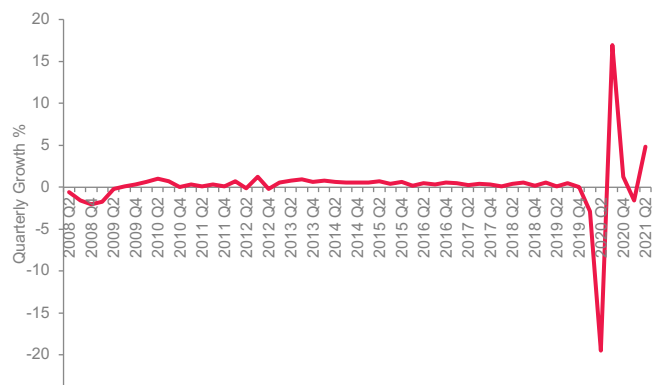
**Monthly headlines:**

- UK economy returned to growth in Q2, driven by stronger service sector output
- Business investment remains muted as consumer spending rebounds
- UK inflation slows for now as the number of job vacancies reach record high

**UK economy rebounded in Q2...**

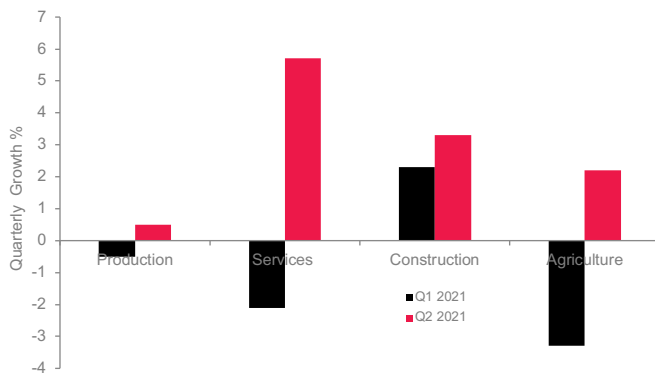
The first official estimate of UK GDP revealed that the UK economy grew by 4.8% in Q2 2021, the second strongest quarterly growth since 1973 Q1 and up from a contraction of 1.6% in the previous quarter (see **Chart 1**). UK economic output is now 4.4% below its pre-pandemic level. On a monthly basis, the UK economy grew by 1.0% in June, up from growth of 0.6% in May. **Strong growth in Q2 may prove to be the high point for the UK economy** with activity likely to moderate in Q3 as staff shortages, supply chain disruption and consumer caution to spend limits the gains from the lifting of restrictions in July.

Chart 1: UK Real GDP Growth



Source: ONS UK GDP, Q2 2021

Chart 2: UK GDP Growth by Sector



Source: ONS UK GDP, Q2 2021

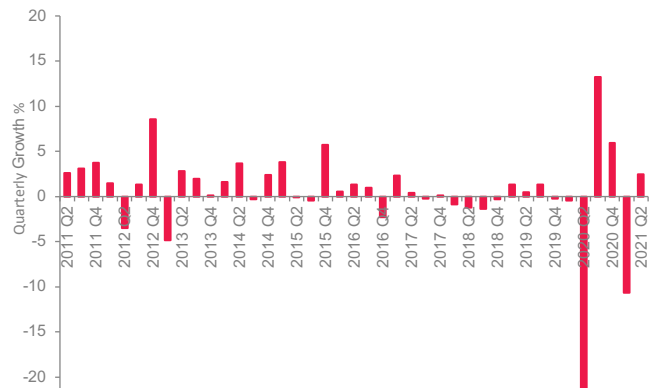
**...driven by stronger service sector output...**

Service sector output, which accounts for three-quarters of UK economic output, grew by 5.7% in Q2 2021 (see **Chart 2**), as the **easing in lockdown restrictions helped drive a 16.7% rise in output from consumer-facing services in the quarter**. Industrial production rose by 0.5% in Q2, with output from the manufacturing sector up by 1.8% in the quarter. Construction sector output rose by 3.3% in Q2. On the monthly measure, service sector output rose by 1.5% in June, while industrial (-0.7%) and construction sector output (-1.3%) fell in the month.

**...but business investment remains muted...**

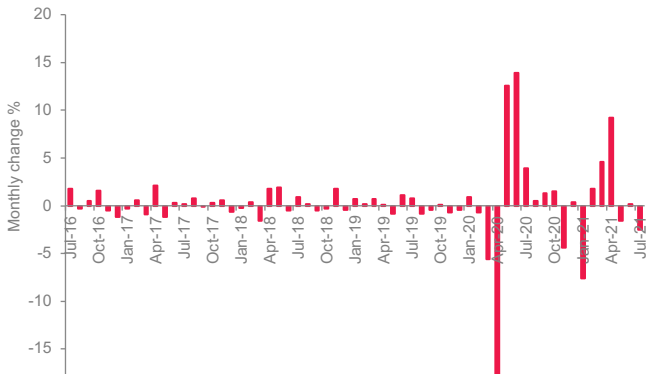
The latest UK GDP data also revealed that business investment in the UK increased by 2.4% in Q2 2021 (see **Chart 3**). However, **business investment remains 15.3% below its pre-pandemic level and means that it may be a weak point of the recovery, limiting UK productivity and competitiveness**. In contrast, household spending rose by 7.3% in Q2, following a 4.6% contraction in the previous quarter. The easing of restrictions in Q2 helped consumers spend some of their 'unanticipated' savings accumulated during lockdowns.

Chart 3 UK Business Investment



Source: ONS UK GDP, Q2 2021

Chart 4: UK Retail Sales



Source: Retail Sales, July 2021

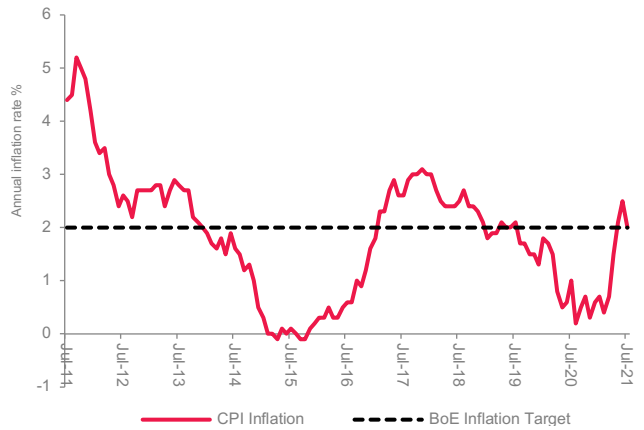
**...retail sales fall in July...**

Retail sales fell by 2.5% in July, the largest fall since the lockdown driven drop in January and down from a 0.2% rise in June (see Chart 4). The fall in July largely reflected the unwinding of the transitory boost to spending from Euro 2020 and release of pent-up demand from the earlier phases of reopening. Food (-1.5%), non-food (-4.4%) sales decline sharply in the month and poor weather drove a 2.9% drop in fuel sales, the first fall since February. However, retail sales were still 5.8% higher than pre-pandemic levels and 2.4% higher in annual terms.

**...and UK inflation slows for now...**

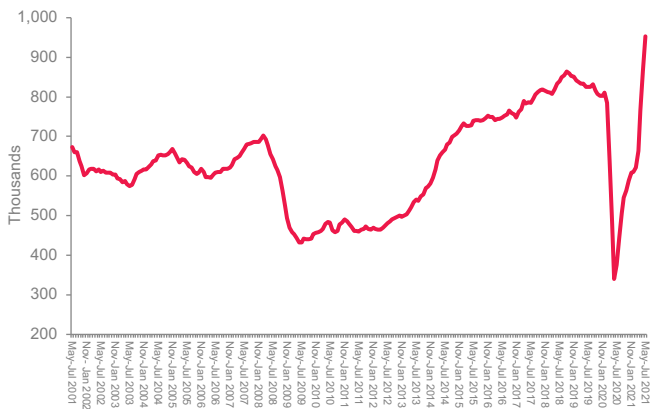
CPI inflation stood at 2.0% in July 2021, down from June's reading of 2.5% (see Chart 5). Falling clothing and footwear prices and cheaper electronic goods helped push inflation lower in the month. The slowdown also reflected base effects, amid the comparison with July 2020 when there was a jump in prices as the UK economy unlocked. Supply chain price pressures are rising – the rate of output inflation for goods leaving the factory gate were up 4.9% on the year to July, from 4.5% in June. Supply chain disruption, the rise in the energy price cap in October and reversal of the VAT cut for hospitality means that inflation is likely drift markedly higher over the near term.

Chart 5: UK CPI Inflation



Source: ONS Consumer Prices, August 2021

Chart 6: Job Vacancies



Source: ONS Labour Market Overview, August 2021

**...as job vacancies reach record high...**

The number of employees on payroll rose by 182,000 to 28.9 million in July 2021, as the boost the easing of restrictions in the month helped drive stronger demand for labour. The number of job vacancies rose by 43.8% (290,000) to 953,000 in the three months to July 2021, the highest level since records began in 2001 (see Chart 6). Although labour demand is currently robust, with firm's finances still recovering from Covid and skills mismatches likely to limit the extent to which those seeking jobs after furlough can move into available roles, unemployment may still drift somewhat higher in the near term.

**...UK's trade deficit widens...**

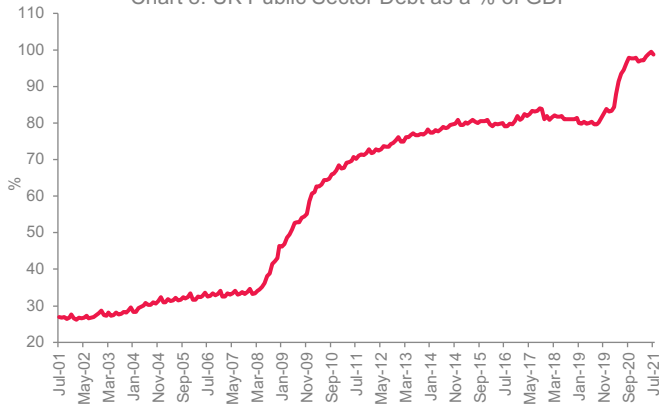
The UK trade deficit in goods and services (excluding precious metals) was £5.2 billion in Q2 2021, an increase of £3.6 billion on the previous quarter (see Chart 7). The widening deficit was driven by imports rising by £11.5 billion to £150.5 billion in Q2, more than offsetting the £7.9 billion rise in exports over the same period. UK exports of goods to the EU rose by 26.3% in Q2 2021 as covid restrictions eased, while exports of goods to non-EU countries rose by 1.2% over the same period. Net trade is likely to weigh on the economic recovery with post-Brexit disruption likely to limit EU demand for UK goods and services.

Chart 7: UK's Net Trade Position



Source: UK trade, Q2 2021

Chart 8: UK Public Sector Debt as a % of GDP



Source: ONS Public sector finances, July 2021

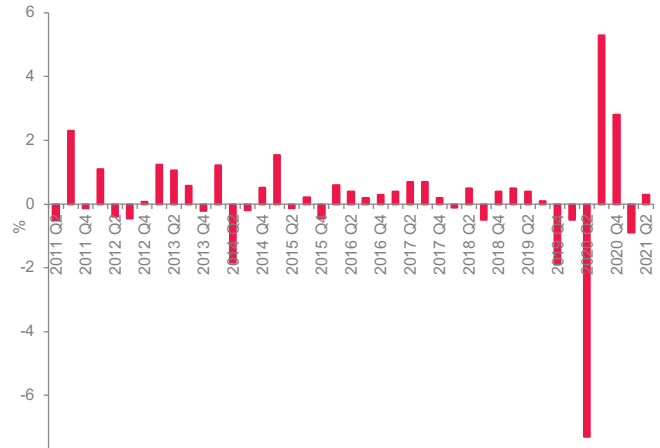
**...government borrowing declines...**

Public-sector borrowing (excluding public-sector banks) stood at £10.4 billion in July 2021. This was £10.1 billion lower than in July 2020, but still the second highest July borrowing since monthly records began in 1993. **UK public sector net borrowing totalled £78 billion in the financial year to July 2021, the second highest financial year-to-July borrowing on record, but £61.6 billion less than in the same period last year.** Public sector net debt (excluding public sector banks) currently stands at 98.8% of UK GDP (see **Chart 8**), the highest ratio since March 1962.

**...Japan's economy returns to growth...**

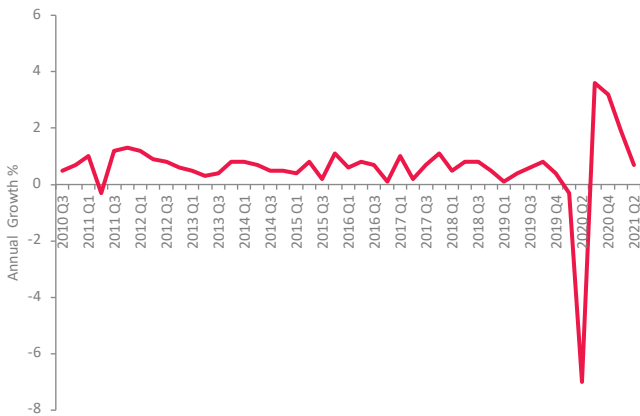
Japan, the world's third-largest economy, grew by 0.3% in Q2 2021, up from the contraction of 0.9% in the previous quarter (see **Chart 9**). On an annualised basis, Japan economic output rose by 1.3% in Q2, up sharply from the contraction 3.7% in Q1. The return to growth was partly driven by rising consumer spending (+0.8%) and business investment (+1.7%) in the quarter. Exports rose by 2.9% in Q2, as the global recovery increased demand for Japanese goods and services. Despite the return to growth, **the near-term outlook for Japan's economy is subdued with economic activity likely to remain squeezed by rising covid cases and ongoing restrictions.**

Chart 9: Japan Real GDP Growth



Source: National Accounts of Japan

Chart 10: Australia Real GDP Growth



Source: Australian Bureau of Statistics

**...as Australia GDP growth slows.**

Australia's economy grew by 0.7% in Q2 2021, the fourth successive quarter of growth, but down sharply from growth of 1.9% in the previous quarter (see **Chart 10**). Australia's economic output is now at 1.6% higher than its pre-covid levels. In annual terms, Australian economic output was up 9.6% in the second quarter. Private investment rose by 2.0% in Q2. Household spending (+1.1%) and public investment (+7.4%) also contributed strongly to economic activity in the quarter. Despite a resilient second quarter, **Australian economic output is likely to slow in Q3 as impact of prolonged lockdown restrictions in Melbourne and Sydney are fully felt.**

**Bottom line:**

**Overall, last month's data releases indicate that the UK's economic recovery remains on track. However, with many firms facing persistent staff shortages and supply chain disruption, policymakers must guard against complacency over the underlying strength of the recovery. A comprehensive rebuild strategy to turbocharge growth post Covid is needed, alongside a clear plan for dealing with any future virus response, to give firms the confidence to start firing on all cylinders again.**

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# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

| Sector        | Indicators (sources)                    | Jul-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 |
|---------------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Household     | Retail Sales (ONS)                      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Consumer Confidence (GfK NOP)           | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | House Prices (Halifax)                  | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | New car sales (SMMT)**                  | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Mortgage approvals (Bank of England)    | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
| Business      | Business confidence (BCC)***            | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Business lending (Bank of England)      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Service sector output (ONS)             | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Production output (ONS)                 | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Investment intentions (BCC)**           | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
| Labour market | Employment (ONS)                        | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Unemployment (ONS)                      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Number of people on payroll (HMRC)      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Earnings (ONS)                          | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
| Government    | Public sector net borrowing (ONS)**     | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Public sector net debt % of GDP (ONS)** | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Tax receipts (HMRC)**                   | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Current Budget Deficit (ONS)**          | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
| External      | UK trade balance (ONS)                  | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Export Sales (BCC)***                   | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Export orders (BCC)***                  | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
| Financial     | Exchange rate (Bank of England)         | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | Equity Prices (Bloomberg)               | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |
|               | 10 year Government bonds (Bloomberg)    | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      | ■      |

\*Colours indicate an improvement or deterioration of each indicator and refer to monthly changes unless stated. For example, an improvement in employment refers to an increase, while an improvement in unemployment refers to a fall. Also, a depreciation in the exchange rate refers to an improvement and an appreciation in the exchange rate refers to a deterioration. Dates refer to the release dates for each indicator.

\*\*Annual changes. \*\*\*Quarterly changes. \*\*\*\*Latest figures are estimate.