UK retail sector records fastest quarterly growth on record

The unlocking of the economy following the winter lockdown led to the fastest quarterly growth on record in shopping in stores and online, according to the latest snapshot of consumer spending behaviour.

The British Retail Consortium – the trade body that represents retailers – said warmer weather, people holidaying in the UK and the start of the Euro 2020 football tournament had all reinforced the trend towards higher spending.

In its monthly health check conducted in collaboration with the accountancy firm KPMG, the BRC said retail sales were 13.1% higher in June than in the same month two years ago, while the total for the second quarter of 2021 was 10.4% up on the same three-month period of 2019.

The BRC said it was comparing 2021 spending with 2019 because the figures last year were distorted by the downturn caused by the early stages of the pandemic.

Separate figures from the credit card company Barclaycard provided supporting evidence of a June surge in consumer spending, with activity 11.1% higher than in the same month of 2019. Barclaycard said spending on fuel, hotels, resorts and accommodation all grew for the first time since the pandemic began, as holidaymakers booked and embarked on UK breaks, while communal enjoyment of sporting events was a factor behind a 38.1% jump in spending at bars and pubs.

The BRC said the post-lockdown freedom for consumers to shop on the high street and retail parks had led to a dip in online spending, with the digital penetration rate dipping from 49.7% to 39.3% between June 2020 and June 2021.

Official retail sales figures from the Office for National Statistics – which do not include spending in bars, restaurants and hotels – showed a fall of 1.4% between April and May. June figures will be released next week.

Helen Dickinson, the chief executive of the BRC, said: "The second quarter of 2021 saw exceptional growth as the gradual unlocking of the UK economy encouraged a release of pent-up demand built up over previous lockdowns.

"In June, while growth in food sales begun to slow, non-food sales were bolstered by growing consumer confidence and the continued unleashing of consumer demand. With many people taking staycations, or cheaper UK-based holidays, many have found they have a little extra to spend at the shops, with strong growth in-store in June. Fashion and footwear did well while the sun was out in the first half of June, while the start of Euro 2020 provided a boost for TVs, snack food and beer."

Dickinson warned that retailing still faced difficulties, with many firms still trying to make up ground lost during the lockdown and city centres still suffering from low footfall caused by working from home and a lack of international tourists.

Passengers arrive in Menorca on 1 July on the first flight from the UK since the Balearics were included on the Covid-19 green travel risk list.

"Consumer comfort with the next stage of the roadmap will be key to the ongoing success of retail. Many customers are looking forward to a return to a more normal shopping experience, while others may be discouraged by the change in face covering rules. The government will need to reassure the public on safety, while pushing forward with its hugely successful vaccination programme."

Paul Martin, the UK head of retail at KPMG, said: "The fight for share of wallet is under way, as consumers unleash pent-up demand for social activities as restrictions in the UK continue to unwind."

Raheel Ahmed, Barclaycard's head of consumer products, said: "June saw Brits flock back to pubs, bars and beer gardens to watch the football and tennis on the big screens, as the heatwave early in the month encouraged many of us to get out in the sunshine and socialise.

"The start of the Olympics and the expected easing of restrictions later this month should continue to lift spirits and provide more opportunities for get-togethers, whether that's a weekend break, a meal out or to celebrate sporting victories."

Singapore's GDP grows at fastest pace since 2010

The gross domestic product of Singapore during the second quarter of 2021 grew at the fastest pace since 2010. The impressive pace of growth was largely because of the low-base effect from last year when the economy was disrupted because of COVID-19 restrictions.

During the second quarter of 2021, Singapore's GDP grew at 14.3% year-on-year, according to a statement by the city-state's Ministry of Trade and Industry (MTI).

While the year-on-year growth was boosted by the low-base effect, quarter-on-quarter, Singapore's GDP contracted by 2% in the second quarter, indicating that the economy is not yet out of the woods.

"In absolute terms, GDP in the second quarter of 2021 remained 0.9 per cent below its pre-pandemic level in the second quarter of 2019," the statement added.

"The sequential [quarter-on-quarter] decline can be attributed to the implementation of the Phase Two Heightened Alert (P2HA) measures in May-June to contain the spread of COVID-19 in recent months," Irvin Seah, economist at Singaporean lender DBS Bank, wrote in a note.

According to the MTI, the construction industry remains the furthest below (31.6%) from pre-pandemic levels. However, the sector also recorded the fastest year-on-year growth (98.8%) in the second quarter.

"Though outlook for the construction sector is improving, its supply-side constraints are worsening...Further tightening of border control measures, particularly with respect to South Asian countries, which are the key sources of manpower for the sector, will continue to weigh down on the performance of the sector in the coming months," Seah wrote.

Overall, Seah expects GDP growth will slow down and will be at 6.3% for 2021. "A combination of slower growth momentum in manufacturing, manpower crunch in construction, and continued drag from COVID-19 on tourism-related sectors will make for a slower second half of the year," he added.

EU nations approve a dozen pandemic recovery plans

European Union nations approved the pandemic recovery plans of the bloc's four biggest economies and eight other member countries Tuesday, a move seen as a bellwether for an economic revival from the unprecedented recession caused by the coronavirus pandemic.

The approval will allow a dozen of the EU's 27 members to start unlocking funds for the pre-financing of projects that are intended to put Europe on more solid economic footing while also making it greener and more digitally advanced.

The nations include the EU's economic juggernauts - France, Germany, Italy and Spain - and Austria, Belgium, Denmark, Greece, Latvia, Luxembourg, Portugal and Slovakia.

"EU funding can now start to flow to finance much-needed reforms and investments in each of these countries. But this is only the start," EU Vice President Valdis Dombrovskis said.

The green light to prepare for the release of funds is a key step in an 800 billion-euro ($950 billion) support program that EU members agreed on in principle last summer when their economies were mired in the worst economic downturn of the bloc's existence.

Tuesday's agreement will allow the 12 nations to unlock 13% of pre-financing, perhaps as soon as the end of the month, Dombrovskis said. In the case of France, which is to get some 40 billion euros $47.3 billion from the pandemic recovery fund, that would amount to 5.1 billion euros ($6 billion.)

EU Economy Commissioner Paolo Gentiloni said the action "will boost confidence in the markets, in countries, and allow investments and reforms to start."

After last year's economic nosedive, EU economies are set to rebound by their highest levels in decades as coronavirus restrictions ease. They remain at risk, however, due to virus variants that are causing infections to spike again in several countries.

Dombrovskis expressed optimism. "As business confidence grows, investments pick up and people begin to spend more on. The economy is forecast to rebound somewhat faster than previously expected."

Other EU members are expecting approvals of their recovery plans later in the summer although Hungary could pose a potentially divisive problem.

The EU's executive commission is currently working past a Monday deadline to vet Hungary recovery plan amid allegations Budapest might not meet all the requirements to tap into the funds. Critics have said that corruption safeguards might be insufficient in the Hungarian plan.

The threat of higher rates: The Bank of England faces nail-biting decisions ahead

As the world emerges from the pandemic, the big question surrounding surging US inflation is when do the 'transitional' price rises become entrenched.

A 0.9 per cent monthly jump in the cost of American shopping baskets in June, pushing the annual headline rate up to 5.4 per cent, is a shocker.

Prices have climbed almost every month this year with increases over the last three months on an uncomfortable trajectory.

The rise is driven by motoring, with car prices and petrol costs up, together with air fares and hotels as travel normalises. It is easy to argue that these are temporary and will work their way through the system.

But with food prices up and employers having to offer more generous pay, as labour shortages develop, it becomes harder to explain away the upward trend.

Higher prices drive higher inflationary expectations among consumers which in turn drive up wage demands.

Moreover, no one has a clue as to how the black box of central bank bond-buying is going to affect medium-term outcomes.

Too much money chasing too few goods, as production struggles to catch up demand, historically has not produced a happy ending.

Impact was immediately seen in the US bond markets where the yield on the ten-year Treasury climbed.

US consumer prices look to be heading for at least 3 per cent, above the Federal Reserve projections.

Chairman Jay Powell has promised to 'look through' temporary increases before reducing bond-buying or tightening policy. But market pressure is building.

So far British inflation, while ticking up, has yet to look as threatening as the US. But many of the same factors could materialise.

Motoring costs are up driven by petrol prices, a shortage of new cars because of microchip rationing and rising freight and haulage costs. That's before the increased post-Brexit costs at borders are built in.

The direction of interest rates is significant for house buyers, commercial borrowers and the Treasury.

The Office for Budget Responsibility explained in the March Budget that the mind-blowing scale of government debt, together with a sharp reduction in the maturity dates for UK gilt-edged stock, 'dramatically' changes the sensitivity of borrowing to higher interest rates.

Some 59 per cent of UK government debt is affected by short-term interest movements, against 44 per cent before Covid. A one-percentage-point upward move in rates would add £20.8billion to the nation's borrowing.

The interest-rate-setting Monetary Policy Committee, which meets next on August 5, faces nail-biting decisions ahead.

This month, London reclaimed its status as Europe's largest share market when daily cash trades hit £7.7billion, beating back Amsterdam's challenge. Among factors driving the resurgence was a deal which saw traders taking advantage of the City's liquidity to move Swiss franc dealings to the London Stock Exchange (LSE).

The Amsterdam narrative was always a bit flawed since the big investment banks trading euro-denominated stock largely used the LSE's Turquoise platform. Nevertheless, London is still up against EU intransigence on financial services.

Bank of England Governor Andrew Bailey disclosed at the financial policy committee press conference that there was no progress in discussions with the EU on regulatory 'equivalence' for UK firms and platforms.

Britain is pledging to maintain the highest governance standards but France believes it can win back a share of the vast City derivatives trade for Paris.

FTSE 100 finishes near flat as US inflation puts a lid on gains

FTSE 100 index closed very slightly lower on Tuesday as strong inflation data out of the US put a lid on market gains.

The UK's premier share index finished the day down 0.70, or 0.01%, at 7,124, well below the session peak of 7,152 and nearer the low of 7,116.

Midcap FTSE 250 was a higher though, up nearly 31 points, or 0.14%, at 22,926.

Joshua Mahony, senior market analyst at online trading firm IG noted that the "relatively muted market reaction" highlighted that many traders had now grown accustomed to the idea of near-term inflation, while the threat of a hawkish Federal Reserve was being disregarded for now.

"Nonetheless, while markets remain somewhat optimistic that near-term inflation will be fleeting in nature, there is a very real risk that elevated prices persist to the point that the Fed is forced to shorten the timescales associated with the first rate rise," he said.

Top laggard on FTSE was NatWest Group (LON:NWG), which shed 2.66% at 201.30p, despite news of the Bank of England's move to remove restrictions on dividend payouts.

With barely more than half an hour of trading left, the Footsie is more or less back to square one.

London's index of leading shares, which got off to a decent start this morning buoyed by banks, is now little changed.

This morning'e enthisiasm for banks has waned; initially, investors were chuffed with the news that the Bank of England would allow the banks to ramp up their dividends, ending restrictions imposed during the pandemic last year but as the day wore on the likes of Nat West Group PLC (LON:NWG) moved into the red as analysts said investors should that many traders had now grown accustomed to the idea of near-term inflation, while the threat of a hawkish Federal Reserve was being disregarded for now.

While the central bank's Financial Policy Committee (FPC) approved of the lifting of the curbs on dividend payments, its half-yearly pronouncements on the state of the UK's financial system contained a number of cautious statements.

Noting that corporate debt vulnerabilities have "increased modestly" in the first half of the year, but more so among small and medium-sized enterprises (SMEs), the FRC said it expects banks to use "all elements of their capital buffers" to support the economy through the recovery.

"UK banks aren't US banks and anyone expecting a big increase in payouts needs to temper their optimism, which probably helps explain why despite an initial move higher, the bulk of, if not all of today's gains have disappeared, for Lloyds, NatWest Group and Barclays, probably as a consequence of what is happening to yields, after today's US inflation report, which has seen short term rates rise and long term rates decline, thus flattening the yield differentials which allows banks to maximise their profits," said Michael Hewson of CMC Markets and frontrunner in the prestigious Longest Sentence of the Year Award 2021.

Among the mid-caps, Cineworld Group PLC (LON:CINE) was the worse performer, tumbling 8.3% to 67.42p despite confirmation yesterday that cinemas would soon be able to return to full capacity.

That's if people remember what going to the cinema to see a film is like. Disney's Black Widow was released over the weekend in what Americans like to refer to as theatres but the film was also available online via streaming. Cannibalisation is all part of being a Black.