UK GDP monthly growth picks up in November 2021

The UK economy picked up in November, with GDP rising 0.9% month on month and was above its pre-pandemic level by 0.7%. The monthly GDP growth was mainly driven by a 0.7% growth in the services sector, while the construction sector grew by 3.5%, following a 1.7% decline in previous month. The manufacturing sector had also recorded 1.1% growth in November. The construction sector saw a stronger recovery, mainly due to raw materials becoming slightly easier to source after problems in global supply chains.

The UK labour market has seen continued improvement despite the furlough scheme having ended in late September. The unemployment rate fell to 4.1% in the three months to November, down from 4.2% in the three months to October. At the same time, UK inflationary pressure further intensified in December 2021. The headline consumer price index (CPI) rose 5.4% year-on-year in December, following a 5.1% rise in the previous month and hitting a near 30-year high. Core CPI also registered 4.2% growth during the month, up from 4% growth in the previous month. As inflationary pressure remains, consumer confidence remained subdued, with the GfK Consumer Confidence Index fell to -19 in January from -15 in previous month.

Against this backdrop, the Bank of England (BoE) raised the bank rate to 0.5% as expected at its February meeting. There were four votes for a 50-bp rise to 0.75%. The Monetary Policy Committee also voted unanimously to begin reduction of its government and corporate bond purchases by ceasing to reinvest maturing assets. The BoE will also complete the sale of corporate bonds by the end of 2023. After the meeting results, traders increased their bets on future rises in the bank rate, with the bank rate rising to 1% in May.

As of 30th January, the UK’s 7-day average of new Covid-19 cases stood at about 87,400, down from about 150,000 at the end of December 2021. Looking ahead, the UK economic
recovery is expected to continue. Nonetheless, its recovery will still face risk from newly emerging virus variants.

**Equity market still recorded gains despite investors pricing in faster normalisation by the BoE**

Despite growing expectation of faster policy normalisation by BoE, the FTSE 100 Index still recorded modest gains in January, mainly due to the expectation of better earnings outlooks from banks amid rising interest rates. In addition, the FTSE was also lifted by the share price of GlaxoSmithKline (GSK), as the company is demanding a higher bid price for its consumer healthcare business. As of 31st January, the FTSE was about 1.1% higher than the level at the end of December 2021.

In the bond market, yields edged higher amid building market expectation that the BoE will normalise policy faster. As of 31st January, the 10-year UK government bond yield stood at 1.302%, about 33 basis points higher than the level at the end of December 2021.

In the foreign exchange market, the British pound strengthened against the euro but weakened against the US dollar. As of 31st January, the pound had appreciated by 0.7% against the euro, when compared to the levels at the end of December 2021. Nonetheless, the pound depreciated by 0.6% against the US dollar over the same horizon.

Going forward, the UK financial markets are expected to be impacted by the BoE’s continued policy normalisation and that of the US Federal Reserve, as well as by the next pandemic-related developments. The ongoing friction between the UK and the EU after Brexit may pose additional uncertainties to the UK economy and financial markets.
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