

# MONTHLY ECONOMIC REVIEW

August 2021



## Tracking trends in July 2021

**BFM MD Nick Garratt** examines emerging trends in Q4 of 2021, in relation to furniture manufacturing in Britain and the wider economy.

Consumer confidence has moved above pre-pandemic levels and spending continues to be focused on the home.

Rising demand presents a challenge in the near-term as disruptions to global supply chains are expected to continue and existing labour shortages are exacerbated by the 'pingdemic.' However, global supply capacity is expected to recover later this year.

### ECONOMY

The UK economy's current trend for growth looks set to continue, with predictions showing an increasingly rapid recovery later this year.

The CBI is now predicting UK GDP will surpass its pre-Covid level in Q4 2021 – a year earlier than previously expected, equating to GDP growth of 8.2% this year (up from 6%) and 6.1% in 2022 (up from 5.2% in their previous forecast).

Demand is recovering as Covid-19 restrictions lift, with sectors directly impacted by lockdown measures, such as accommodation, food, personal services and retail, being the driving force behind this.

A fourth consecutive month of growth in May has yet to bring the economy back to pre-pandemic levels – remaining 3.1% below February 2020 – but the latest Monetary Policy Report from the Bank of England significantly upgraded its outlook to reflect declining health risks and uncertainty.

With greater near-term support from fiscal policy and household spending, the Bank expects GDP to recover this year, rising to pre-Covid levels in Q4.



### CONSUMER CONFIDENCE

July has seen consumer confidence move above pre-pandemic levels for the first time, according to latest figures from the GfK Consumer Confidence Barometer.

The overall index score improved by two points to -7 in July, improving on the -9 recorded in March 2020 before the first national lockdown. GfK's major purchase index also increased by 7 points to 2 in July.

Joe Staton, client strategy director at GfK, said: "Personal finance expectations for the next year remain strong and there's a dramatic jump this month in our major purchase sub-measure, with shoppers agreeing that now is the right time to buy."

Consumer confidence has now held firm or improved for six consecutive months.

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## SUPPLY CHAIN

Furniture input prices and tight supply have affected furniture makers throughout this year. Supply remains tight, and while there is some easing on price pressure on foam, prices are continuing to rise at double digit levels across a wide range of materials including timber, board, steel components and fibres.

The cost of materials and fuel for UK furniture makers was up by 11.3% in June compared to the same month last year and costs over the first six months of 2021 show an average increase of 7.7% compared to the equivalent period of 2020.

Many industries are dealing with acute supply challenges and related price pressures as demand ramps up. Disruptions of global supply chains and shortages of inputs have significantly pushed up costs for a number of businesses and have put upward pressure on prices.

There is hope on the horizon however, as CBI expects supply chain challenges to ease as supply capacity recovers across the globe later this year – although this may pose an upside risk to inflation in the near-term.

## ECONOMIC SNAPSHOT

2.5%

Inflation Rate  
(CPI)

4.9%

ILO  
unemployment rate

-1.6%

GDP growth rate  
(Q4 2020)

0.1%

Bank of England  
base rate

## LABOUR SHORTAGES

BFM members are consistently reporting problems with staff shortages, partly fuelled by the reduced availability of migrant labour.

The staff shortage problem is further exacerbated by the recent 'pingdemic' leading to more employees self-isolating as a result of the increasing Covid-19 infection rates.

In the week to July 14, it is estimated around 620,000 people were ordered to self-isolate by the NHS Covid-19 app.

From April to June the number of job vacancies across the UK topped pre-pandemic levels for the first time in 15 months – by 9.9%.

However, this does include workers on furlough, so the true slack in the job market will become clearer in October when the furlough scheme comes to an end.

According to data published by the Office for National Statistics (ONS), four UK regions surpassed pre-pandemic levels of payroll employment, with the seventh consecutive rise in June seeing an increase of 356,000.

## INFLATION

The retail price of household furniture in the UK rose by 6.6% in June compared to a year ago, the same as in May. Such sustained increases have not been seen for over three years, with the figure for the second quarter of 2021 standing at 6.3%.

In the same month the price charged at the factory gate for all types of furniture was up 2% and slightly less than this for the whole of the second quarter (April to June).

The Consumer Prices Index (CPI) rose by 2.5% in the 12 months to June 2021, up from 2.1% in May.

On a monthly basis, CPI rose by 0.5% in June 2021, compared with a rise of 0.1% in June 2020.

## PAY AWARDS

Figures from Xpert HR show British workers received higher pay awards in Q2 of 2021 with an average of 2% compared to 1% in Q1, but a recent survey based on the latest monthly figures indicate that acceleration is unlikely to continue.

According to the ONS, average weekly earnings for total pay were estimated at £574 in May 2021 and are now 6% higher than December 2019.

This is the result of a steady increase, with the exception of the early months of the Covid-19 pandemic.



## NICK GARRATT'S ANALYSIS

"The furniture industry continues to benefit from strong demand with strong retail sales volumes reflecting the easing of coronavirus restrictions.

"The home continues to be a major beneficiary whilst restrictions on travel and experiences limit consumer spending in these areas.

"The major threat to businesses continues to be cost and supply based – both labour and materials.

"As yet there is little sign of consumer spending rotating out of the home into experiences and travel."