

MONTHLY ECONOMIC REVIEW

September 2021



Tracking trends in **August 2021**

BFM MD Nick Garratt examines emerging trends in Q2 and Q3 of 2021, in relation to furniture manufacturing in Britain and the wider economy.

There is overall optimism that the economy will recover in the Q4 of this year with spending in the furniture sector remaining strong despite a shift to leisure as venues reopen.

However, the 'perfect storm' around supply of materials continues, while labour shortages are also a concern.

ECONOMY

The first estimate of the national accounts, published by the Office for National Statistics (ONS) showed that economic growth picked up to 4.8% in Q2, as lockdowns lifted and people returned to the pubs, restaurants and hotels.

GDP was 4.4 per cent below the pre-pandemic peak of the fourth quarter in 2019 and many economists believe that the economy will recover the lost output from the pandemic in the final quarter of this year.

Household consumption accounted for 4.1 percentage points of the 4.8 per cent gain in gross domestic product in Q2 and as consumption is currently 7.3 per cent below its 2019 peak, the figures indicate that there is still room for people to decrease their savings and increase spending further in the second half of the year.



RETAIL SALES

Retail sales in Great Britain fell sharply last month as consumers spent less on groceries and more on leisure activities.

A survey from the British Retail Consortium (BRC) showed spending in shops increased by 6.4% in July compared with a year previously. Furniture sales held up well with July sales being broadly flat compared to June 2021 and well ahead of the figures for July 2019.

Retailers have given mixed responses to the reasons for the fall speculating that shoppers possibly stayed at home due to bad weather, England's run in the Euro 2020 football tournament, or rising COVID-19 cases.

In a possible sign of renewed caution among shoppers, or July's bad weather, ONS data showed online sales rose to 27.9% of total spending after hitting a pandemic low in June.

The volume of monthly retail sales was much weaker than forecast, dropping 2.5 per cent in July compared with the previous month. Non-food stores reported a fall of 4.4%, though sales remained 5.8% above the pre-pandemic levels of February 2020.

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CONSUMER CONFIDENCE

Overall consumer confidence levels have taken a dip, but still remain above pre-pandemic levels. The latest GfK consumer confidence index showed that the sentiment score decreased to -8 in August, from the -7 recorded in July.

Joe Staton, client strategy director at GfK, said: "Against a backdrop of cooling headline inflation and soaring house prices, the UK consumer confidence index is stable at minus eight this August."

"Importantly, expectations for our personal financial situation for the coming 12 months are holding up and this positivity bodes well for the economy going forwards this year and next."

"Interestingly, this month the five-point fall in the major purchase index is counterbalanced by the five-point rise in the savings index, suggesting that consumers could be considering switching into saving rather than spending."

"Indeed, UK consumers have built their savings to record levels during Covid. With the economy continuing to open up and GDP bouncing back, the overall picture for the economic health of the nation is looking good for the remainder of 2021."

ECONOMIC SNAPSHOT

2.5%

Inflation Rate
(CPI)

4.8%

ILO
unemployment
rate

4.8%

GDP growth rate
(Q2 2021)

0.1%

Bank of England
base rate

SUPPLY CHAIN

The increase in the cost of materials and fuel for UK furniture manufacturers climbed to 15.8% in July, compared to the same month in 2020.

In June the same comparative figure was 12.3%.

For some time, BFM price reports have been recording large material price rises - some items over 60% - due to high demand and supply shortages.

The latest BFM Prices Report for August shows little sign of this trend abating.

Shipping rates have continued to climb and have now reached record levels.

In a perfect storm of increasing demand, limited supply and port closures due to Covid-19, freight has increased tenfold in many cases.

Lars Mikael Jensen, head of global ocean network at Maersk, the world's largest container shipping group, agreed that the situation had shown no signs of improvement since the Delta variant of Covid emerged.

LABOUR MARKETS

The latest ONS data covers the period from April to June 2021 and shows further signs of recovery in the labour market, with employment increasing, unemployment decreasing, and vacancies reaching a record high.

Real time Pay-As-You-Earn data for July 2021 also showed that the number of pay-rolled employees increased once again, up by 182,000 in July 2021 to 28.9 million.

However, payrolls remain, 201,000 below levels seen before the pandemic, underscoring that a significant degree of slack remains in the labour market.

BFM members are continuing to report problems with staff shortages partly fuelled by the reduced availability of migrant labour.

Despite the recent changes to self-isolation rules, short-term absences through Covid-19 reasons remain a major concern to factories.

NICK GARRATT'S ANALYSIS



"The furniture industry continues to benefit from strong demand for household goods even as Covid-19 restrictions on leisure activities are lifted."

"Although there is some rotation of spending into entertainment and leisure this is not having a major impact on consumer spending on furniture."

"Whilst consumer savings levels remain high and the impact of the virus is lessening, it seems that spending will remain strong - the re-opening of international travel is likely to be the biggest detractor to this."

"However, with strong order books many businesses are operating on long lead times and shut-off for Christmas deliveries is happening earlier than ever before."