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This Month in Brief

COVID-19 continued to have significant impacts throughout the world as most countries in the world continued to have some form of COVID-19 related restrictions. There were some positive signs in large parts of Europe and USA as the number of new daily cases continued to fall. However, the opposite was true in South America which saw large outbreaks of the virus over the month.

COVID-19 and the prevention measure to control its spread has led to the UK economy being heavily affected by the crisis. Trade, tourism, real estate and hospitality sectors were the hardest hit - crucial sectors to a service-based economy such as the UK.

On 13 May, the UK Government announced a gradual easing of COVID-19 restrictions which began with the opening of manufacturing and construction sectors.

However, there have been tentative signs of recovery in domestic spending in China as it eased its COVID-19 related restrictions. This is expected to be echoed in other countries but the recovery to the UK and global economy is expected to be a slow and gradual one. The future months will be driven by how households and businesses adapt to the 'new normal', and most importantly if there is a second wave. Despite this, the significant fiscal and monetary stimulus adopted by many countries has seen equity markets continue to recover.

Gold

Gold prices rose further in May 2020 reaching £1,265.10 per ounce. The increase is part of a longer upward trend as Gold prices have doubled over the past 10 years.

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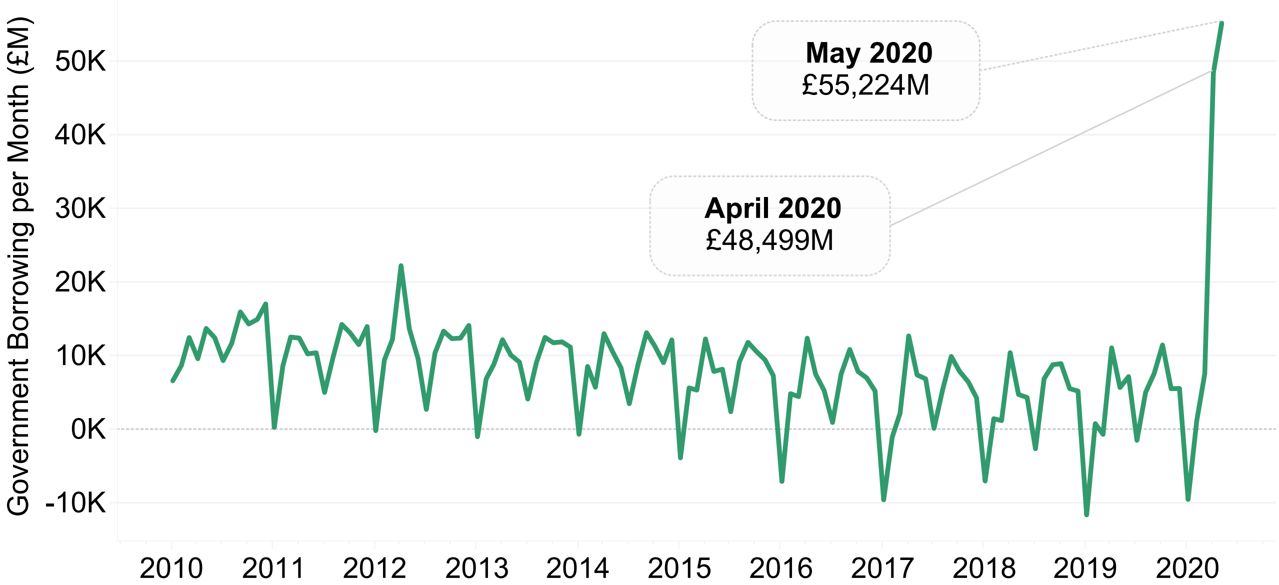
In light of the continued economic uncertainty across the world attributable to COVID-19, investors have flocked to Gold. This is because Gold is often considered to be a safe investment as it is not tied to any particular economy.

Public Sector Borrowing

Public Sector Net Borrowing, or a Fiscal Deficit, occurs when the UK Government's expenditure is higher than its income from taxes and other revenues. If government income is higher than government expenditure, this is referred to as Public Sector Lending or a Fiscal Surplus.



The UK Government surpassed last month's record borrowing of £49 billion, by borrowing a further £55 billion in May 2020, as it continues to support the economy through the COVID-19 pandemic. The continued shutdown of large parts of the economy led to sharp reductions in the Government's main sources of income - income tax, national insurance contributions, VAT and corporation tax. This was coupled with the significant increase in spending to provide support to the public through schemes such as the Coronavirus Job Retention Scheme.

The UK Government's Coronavirus Job Retention Scheme was designed to avoid large numbers of unemployment and at the end of May, almost a quarter of the labour workforce (8.4 million workers) were furloughed, and in addition there were nearly one million new unemployment benefit claims.

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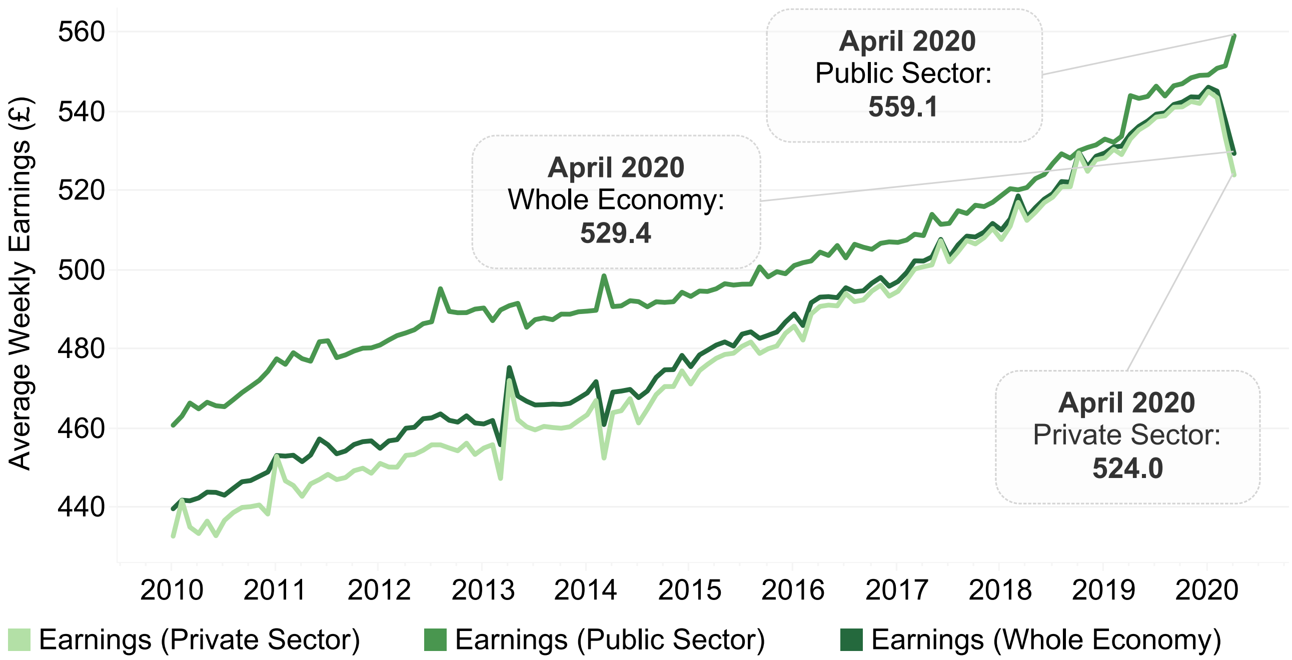
Earnings

Average Weekly Earnings (AWE) is the lead indicator of short-term changes in earnings in the United Kingdom, and replaced the Average Earnings Index in January 2010.

Average weekly earnings for any month is the ratio of estimated total pay for the whole economy, divided by the total number of employees. As a result, AWE can be impacted by changes in rates of pay, as well as the composition of the labour force.



The average weekly earnings fell by 1.6% between March 2020 and April 2020. This fall is particularly stark when we remove the public sector component, where average weekly earnings increased by 1.4%. Overall average weekly earnings for the private sector dropped by 1.8% over the month.

This was driven by large pockets of the economy being supported by the Coronavirus Job Retention Scheme where the UK Government covered up to 80% of salaries of businesses left at a standstill as a result of the COVID-19 pandemic. Several companies were unable to cover the remaining 20% due to no income as a result of the continued lockdown.