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News in Review

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'The economy has recently been subject to a succession of very large shocks'

Last Thursday, as highly anticipated, the Bank of England (BoE) announced the third increase in Bank Rate in four months, placing more pressure on household finances. The Monetary Policy Committee (MPC) members voted by an eight to one majority in favour of the 0.25 percentage point rise from 0.5% to 0.75%, in a bid to dampen soaring inflation.

Bank Rate is now at its highest level since March 2020, at the start of the pandemic. The policymakers felt that the rate rise was justified *'given the current tightness of the labour market, continuing signs of robust domestic cost and price pressures, and the risk that those pressures will persist.'*

The Committee said that depending on how medium-term prospects evolve, including the economic implications of geopolitical events, *'some further modest tightening in monetary policy may be appropriate in the coming months.'* The next MPC meeting will take place in early May.

The Bank cautioned that the annual inflation rate may rise to around 8% in Q2 and potentially even higher later in the year, possibly reaching double digits if energy prices push up the energy price cap when it's reset in October. Prices have already increased by 6.2% in the year to February, a new 30-year high and well above the BoE's 2% inflation target. The Bank outlined that the Ukraine invasion has exacerbated supply chain disruption, placed upward pressure on energy, commodity and food prices, and has significantly increased uncertainty around the economic outlook, commenting, *'The economy has recently been subject to a succession of very large shocks. Russia's invasion of Ukraine is another such shock… should recent movements prove persistent, the very elevated levels of global energy and tradable goods prices, of which the United Kingdom is a net importer, will necessarily weigh further on UK real aggregate income and spending. This is something monetary policy is unable to prevent.'*

The cost of doing business

Set against a backdrop of growing domestic and global headwinds, Head of Economics at the British Chambers of Commerce (BCC) Suren Thiru, said that although expected, the decision to raise interest rates was mistimed, arguing that higher rates will do little to curb some of the global causes behind the surge in prices and risk intensifying the financial squeeze on consumers and businesses, "*While interest rates remain low by historic standards, the latest rise will be viewed by many as a further step in a prolonged period of aggressive monetary tightening at a time when consumers and businesses are struggling under a myriad of rising cost pressures… intensifying the headwinds facing the UK economy by damaging confidence and deepening the financial squeeze on consumers and businesses."* He urged the Chancellor to take the opportunity to use the Spring Forecast Statement on 23 March to address the *"escalating cost of doing business crisis"* and suggested that a delay in the National Insurance rise and introducing a temporary energy price cap for small businesses, would be enough to provide firms with the *"headroom to keep a lid on prices, protect jobs and make investment that is so vital to sustaining our economic prospects."*

The Chancellor has pledged to help *"where we can make a difference"* as he faces pressure to assist struggling households. There have been reports that this could include a temporary cut in fuel duty.

Markets

Toward the end of last week, both US and European markets continued their recovery, delivering solid weekly advances, as investors positively regarded the certainty of the Federal Reserve's monetary policy announcement on Wednesday. The Fed adopted a measured approach, raising interest rates 25 basis points and plotted out a route toward six additional rate hikes during 2022. This is the first time the US central bank has raised the interest rates since 2018.

On Tuesday, the price of Brent Crude reached over $118 a barrel as concerns persist over potential shortfalls in supplies. London stocks finished in positive territory following news from the Office for National Statistics (ONS) that government borrowing in February was £13.1bn, a drop of £2.4bn from February 2021.

Here to help

It is essential that investors focus on longer-term timescales instead of focusing too intently on short-term volatility. Rest assured we will continue to monitor events closely. Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.