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News in Review

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"The American economy – powered by working families – continues to be resilient in the face of historic challenges"

The US economy contracted in Q1 as surging inflation and supply disruptions weighed on output. A slower pace of inventory investment by businesses also weighed on the growth of the world's largest economy, as did fading government stimulus. The 1.4% decline in gross domestic product in the first quarter marked a sharp turnaround from the 6.9% annual growth rate recorded in the final quarter of last year and is considerably lower than the 1% growth widely estimated by economists.

The figure was the first contraction since the height of the pandemic in 2020. One of the US economy's main drivers in Q1 was consumer spending, increasing by 2.7%, a slight acceleration from the end of 2020. However, high inflation is eroding household purchasing power, as consumer prices rose by 8.5% in March, a forty-year high.

Following the unexpected negative data, President Biden insisted the US economy remained strong, *"The American economy – powered by working families – continues to be resilient in the face of historic challenges. Last quarter, consumer spending, business investment, and residential investment increased at strong rates. The number of Americans on unemployment insurance remains at the lowest level since 1970."*

When the Federal Reserve next meet on 4 May, there are expectations that the decision will be made to raise policy rate by fifty basis points as the tight labour market and surging inflation weigh heavily on the economy.

Eurozone inflation edges higher

Meanwhile, closer to home, data released last week showed eurozone inflation reached a new record high in April. For the nineteen countries in the eurozone, inflation surged to 7.5%, adding pressure on the European Central Bank (ECB) to tighten policy. Escalating fuel prices weighed on the region's economic recovery. The April figure tops the old record of 7.4% recorded in the previous month. ECB President Christine Lagarde reiterated that the eurozone would adopt a more "gradual" approach than the Federal Reserve to stamping out inflation. Despite this, there are expectations that the ECB may raise rates for the first time in a decade as soon as July.

UK government borrowing halves

Data from the Office for National Statistics (ONS) shows that during the last financial year government borrowing more than halved versus the same period a year earlier, when the UK was in the middle of pandemic restrictions. The £151.8bn borrowed in the financial year ending March 2022, was under half the £317.6bn borrowed in 2020-21. Since pandemic schemes, including the Job Retention Scheme ended, the government has clearly borrowed less. In addition, the government received stronger than expected revenues from taxes, with receipts at £619.9bn for the fiscal year, an increase of £94.3bn. In March, borrowing totalled £18.1bn, well above pre-pandemic levels and the second-highest amount for the month since records began in 1993, but still £8.8bn less than the amount borrowed in March 2021.

MPC – rates on the rise?

With the next Monetary Policy Committee

(MPC) meeting taking place on 5 May, the decision on Base Rate, voted by the nine-member committee, is imminent. The rate has been rising incrementally over the last few months and following three consecutive hikes, its current level is 0.75%. As the Bank of England takes action against soaring inflation, a vote to increase the rate again by 0.25% would see it reach levels not seen since 2009.

House prices continue their ascent

The latest Nationwide House Price Index has revealed that average house price growth has slowed in the year to April to 12.1%, from 14.3% recorded in March. Despite the reduction in growth, it's still the eleventh time in the last twelve months that the rate of annual growth has been in double digits, putting the average value of a UK property at £267,620. Nationwide's Chief Economist Robert Gardner commented on the data, *"Housing market activity has remained solid with mortgage approvals continuing to run above pre-COVID levels. Demand is being supported by robust labour market conditions, where employment growth has remained strong, and the unemployment rate has fallen back to pre-pandemic lows. With the stock of homes on the market still low, this has translated into continued upward pressure on house prices."*

He continued, *"Nevertheless, it is surprising that conditions have remained so buoyant, given mounting pressure on household budgets which has severely dented consumer confidence."*

Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.