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News in Review

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"There is an encouraging downward path of inflation in our central projection"

Last week, the Bank of England's (BoE) Monetary Policy Committee (MPC) voted by a majority of seven to two, to increase Bank Rate by 0.5 percentage points to 4%, its highest level for 14 years. The two committee members who opposed the half-point hike, favoured maintaining Bank Rate at 3.5%.

The BoE has been increasing interest rates in a bid to tackle the soaring cost of living. This is the tenth consecutive rise but analysts believe rates are nearing a peak of 4.5%, which is significantly lower than the 5.25% peak that had been forecast when the MPC met in the autumn following the mini budget.

Although inflation remains close to its highest level for 40 years, BoE Governor Andrew Bailey said inflation now appears to be falling, *"There is an encouraging downward path of inflation in our central projection."* However, he did caution that there are still *"big risks out there"* which could continue to have an impact on the economy.

Although challenges remain and the economy appears to be fragile, forecasts for the year ahead were revised up, predicting a shorter and shallower recession than previously anticipated, lasting just over a year rather than almost two, as energy bills fall and price rises start to moderate.

BoE Chief Economist Huw Pill spoke on Friday about the need for the Bank to strike a balance with their policy direction, saying that the full impact of aggressive interest rate actions have not yet been felt in the economy, so it's *"important we guard against the possibility of doing too much,"* adding that the MPC would maintain a *"zen-like balance in our objective"* to bring inflation down in the medium term.

The next MPC summary and minutes will be released on 23 March, following the meeting conclusion.

And elsewhere...

Last week in the US, the Federal Reserve increased its base interest rate by 0.25 percentage points, its smallest increase since March last year, when the bank instigated its most radical interest rate raising cycle in over 30 years. The central bank elevated the Fed Funds Rate in line with market expectations, to a range of 4.5 to 4.75%, the highest since 2007. In a statement, the Fed outlined *'ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time.'* Indicating that further rate rises may be required to control inflation, Fed Chairman Jerome Powell commented that *"the job is not fully done."* And on the continent, the European Central Bank (ECB) recently rose its base rate by 0.5 percentage points and suggested that it expects rates to continue their ascent.

UK manufacturing sector

Last week the latest S&P Global/CIPS UK Manufacturing PMI data highlighted a rise to 47.0 in January. Although still a contraction (sub-50.0 signals a deterioration), it is a slower paced contraction than the one registered in December (45.3), a 31-month low. Despite output, new orders and employment all contracting further, the outlook is positive, with optimism rising to its highest level since April 2022. Rob Dobson, Director at S&P Global Market Intelligence, commented on the latest survey results, *"There were some shoots of positivity developing... Rates of contraction are generally lower than before the turn of the year, a possible sign that we may be past the worst of the downturn in industry. Cost inflation also eased further, while supply chain delays were the least pronounced for three years. Manufacturers' confidence is also reviving from recent lows, hitting a nine-month high, though the mood continued to be darkened by concerns about inflation and the possibility of recession."*

Markets

On Friday (3 February) the FTSE 100 hit an all-time high, overcoming any economic drag to briefly touch a record high of 7,906.58, topping its previous peak in May 2018, before closing at 7,901.80. BP shares boosted London stocks on Tuesday following the release of its latest set of results, even as investors eyed a speech by Jerome Powell, expecting to get clues regarding the bank's tightening path.

Here to help

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