INVICTUS
Independent Financial Advice

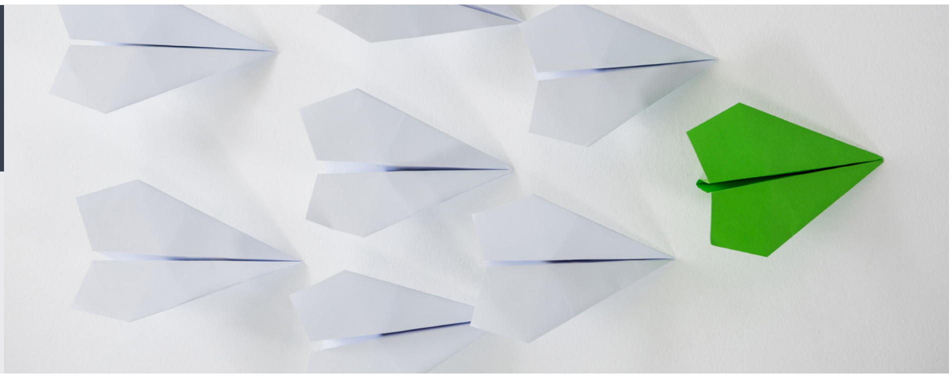
Invictus IFA
Minster Gardens,
Nottingham,
NG16 2AT

T: 0115 88 00 244
M: 07793 323027
E: info@invictusifa.co.uk
www.invictusifa.co.uk

News in Review

17 May 2023

"We have to stay the course"



As widely expected, the Bank of England's (BoE's) Monetary Policy Committee (MPC) voted to increase Bank Rate by a quarter of a percentage point to 4.5%, at its meeting last week. Seven members of the committee voted to raise the rate, while two members favoured maintaining Bank Rate at 4.25%.

The twelfth consecutive rise, borrowing costs are now at their highest level since October 2008. The Bank has been raising rates in an attempt to lower inflation, which it now expects to fall more slowly than previously hoped. By the end of 2023, inflation is predicted to sit above 5%, contrary to its February forecast which cited *'below 4%'* by year end. A resilient labour market and high food prices continue to impact. During a press conference following release of the MPC minutes, Andrew Bailey, BoE Governor, commented, *"We have to stay the course to make sure inflation falls all the way back to the 2% target,"* before stressing that the BoE was not making any indications about its next move, which would be data dependent.

In welcome news, the central bank lifted its economic outlook for the UK, predicting a recession will be avoided. GDP is expected to expand by 0.25% during 2023, better than the 0.5% contraction previously forecast. Bailey defended the u-turn in the Bank's growth forecast, saying its *"biggest upgrade"* ever reflected the rapidly shifting economic landscape, with energy prices falling and economic activity stronger than expected.

Chancellor of the Exchequer Jeremy Hunt said it was good that the BoE is *"no longer forecasting recession,"* but added, *"Today's interest rate rise will obviously be very disappointing for families with mortgages, but unless we tackle rising prices, the cost-of-living crisis will only carry on – which is why we need to be resolute in sticking to our plan to halve inflation by the end of the year."*

The next MPC meeting is scheduled to conclude on 22 June.

US inflation below 5%

Price rises in the US fell to their lowest point in two years, according to official figures released last week, with milk and new cars driving inflation down to 4.9% in the year to April. This is the tenth consecutive month that price rises have slowed, after having peaked last June at 9.1%.

Meanwhile, US Treasury Secretary Janet Yellen is urging Congress to agree to raise the country's debt ceiling. Should an agreement to increase the ceiling, which has been raised, extended or revised 78 times since 1960, not be forthcoming, the Federal Government could run out of money by early June.

UK GDP

The UK economy grew by 0.1% between January and March, according to data released by the Office for National Statistics (ONS) on Friday. The figures revealed that the economy contracted by 0.3% in March, as car sales and the retail sector suffered a bad month; other explanations for the slow quarter include strikes, cost-of-living pressures and the wet weather. The economy is still 0.5% smaller than pre-pandemic levels, the ONS said, and performed worse in the first quarter than other major economies, except Germany.

Record number of long-term sick

On Tuesday, the ONS released data that revealed employment edged up to 75.9% in the first three months of 2023. Despite that, the number of people not working due to long-term sickness rose to a record high of 2.55 million.

The rising employment rate was attributed to an increase in part-time employees and self-employed workers, though the unemployment rate also rose slightly to 3.9%. Meanwhile, vacancies fell on the quarter for the tenth consecutive period.

Neil Carberry, Chief Executive at the Recruitment and Employment Confederation, commented, *"These figures show some gentle progress on bringing people back to the labour market, but we should be concerned by the high number of people who are economically inactive because they are sick, and progress on tackling inactivity overall is too slow."*

Here to help

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