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News in Review

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"If we don't raise rates now, it could be worse later"

Last Thursday, the Bank of England (BoE)'s Monetary Policy Committee (MPC) voted to increase Bank Rate to 5%, a half percentage point rise that caught many economists by surprise.

After a thirteenth consecutive rise, Bank Rate is now higher than at any point since 2008. The latest increase also signals the MPC shifting gear in its fight against persistent inflation, with seven MPC members opting for a 0.5% increase. Two dissenting committee members, however, favoured no change from 4.5%.

The MPC's decision followed inflation figures released by the Office for National Statistics (ONS) last Wednesday that showed inflation had held firm at 8.7% in May, above analysts' expectations for the month. Importantly, core inflation, which strips out energy, food, alcohol and tobacco, hit 7.1%, a rise from 6.8% in the previous month.

With this latest rise, the BoE now hopes to get a more solid grip on inflation. Commenting on the rate rise, BoE Governor Andrew Bailey said, *"The economy is doing better than expected but inflation is still too high and we've got to deal with it. If we don't raise rates now, it could be worse later."* He added, *"I understand the difficulty and the pain that causes for many people."*

Talking from a warehouse in Dartford, Prime Minister Rishi Sunak commented, *"I'm sure [the rate rise] actually fills many of you with some anxiety and some concern about what's going on and what that means for you and your families. I'm here to tell you that I am totally, 100%, on it and it's going to be okay and we are going to get through this."*

The next MPC meeting is scheduled for 3 August.

The global economy

The BoE's Committee Summary provided a view on the global economy, outlining an expectation that UK-weighted global GDP growth in Q2 was to be *'marginally stronger than anticipated at the time of the May Monetary Policy Report.'* It was noted that the most acute risks from the recent banking sector woes have receded and that during Q2, growth momentum in China slowed. The expectation is that recent weakness in Chinese tradable goods prices is likely to put downward pressure on global export price inflation.

Bankers summoned to discuss rate rise

On Friday, banks and building societies met with Chancellor Jeremy Hunt to discuss possible ways to help people struggling with rising mortgage costs.

Following the increase in Bank Rate, many mortgage holders are now facing immediate higher repayments, while others coming to the end of a fixed-term deal will soon be confronted with higher rates. It is estimated that those on a typical tracker mortgage will pay about £47 more each month, while the figure for those on standard variable rate (SVR) mortgages will be about £30 extra.

Ahead of Friday's meeting, Mr Hunt and Rishi Sunak had already dismissed suggestions from some that the government should step in to help those struggling with their bills. Instead, the meeting resulted in the promise from banks and building societies of greater flexibility for those unable to keep up with rising costs. In practice, this means that struggling borrowers will be able to make a temporary change to their mortgage terms to reduce monthly costs in the short term, for example by switching to interest-only repayments.

Summer clothes splurge

Latest retail figures released by ONS on Friday showed a boost for sales, as shoppers sought out summer clothes. Since the second half of May, when temperatures first started to soar, sales volumes have risen by 0.3%.

Online retailers and garden centres fared particularly well, according to ONS, along with fuel sales. In contrast, food sales slipped by 0.5% as shoppers continue to adjust to higher prices.

Commenting on the data, Heather Bovill, Senior Statistician at ONS said, *"Retail sales grew a little in May, with online shops doing particularly well selling outdoor goods and summer clothes, as the sun began to shine. Garden centres and DIY stores also saw growth, as the good weather encouraged people to start home and garden improvements."*

Here to help

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