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News in Review

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"The broader picture looks more positive, with the economy growing across the services, production and construction sectors in the last three months"

Latest official figures from the Office for National Statistics (ONS) estimate that the UK economy contracted by 0.5% in July. The reduction was higher than the 0.2% decline which had been forecast by a poll of economists and follows a 0.5% increase in June.

The biggest monthly contraction since December 2023, the data released last week showed that contributing factors to this reduction in monthly real gross domestic product (GDP) were strike action by teachers and NHS workers, with the wet weather during the month also impacting the retail and construction industries. Manufacturing also suffered in the month, following a rebound from the effect of the extra bank holiday in May.

Although a monthly decline was registered, Darren Morgan, ONS Director of Economic Statistics, did highlight, *"The broader picture looks more positive, with the economy growing across the services, production and construction sectors in the last three months."*

Following the data release, Chancellor Jeremy Hunt commented, *"There are many reasons to be confident about the future. We were among the fastest in the G7 to recover from the pandemic and the IMF (International Monetary Fund) have said we will grow faster than Germany, France and Italy in the long term."*

Triple lock uncertainty

As things stand, the full basic State Pension rises every year in line with the highest of three factors – September's wage growth, inflation or 2.5% (the triple lock). With new ONS data for the three months to July showing pay including bonuses increased by 8.5%, if earnings growth remains this high and outpaces inflation in September, it could push up the new State Pension to over £11,000 a year in 2024. The new flat rate State Pension would be £221.20 per week, while the old basic State Pension would be £169.50 per week according to preliminary calculations.

However, last week, Mel Stride, Work and Pensions Secretary said that although the government remains *"committed"* to the triple lock, it is understood that officials are considering applying a lower earnings figure, by stripping out the effect of bonuses to public sector workers. If this were implemented it would bring the figure used closer to 7.8%, the overall rate excluding bonuses. It has been reported that Treasury officials are considering this *'one-off break.'*

Eurozone interest rate hits record high

On the continent last week, the macro focus rested on the September European Central Bank (ECB) meeting, during which a decision was made to increase the Bank's deposit rate by 0.25 percentage points to 4%, as the struggle to control inflation continues. The tenth consecutive increase in 14 months, rates have now reached their highest level in 24 years, since the single currency was launched in 1999.

The ECB did signal that this could be the last hike for a while, citing in a press release last Thursday that, *'The Governing Council considers that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target. The Governing Council's future decisions will ensure that the key ECB interest rates will be set at sufficiently restrictive levels for as long as necessary.'*

Average inflation in the 20-nation bloc is projected to be 5.6% this year, before falling to 3.2% in 2024 and 2.1% in 2025. The ECB's medium-term target is 2%.

Bank Rate expectations

The Bank of England's Monetary Policy Committee (MPC) publishes the summary of its next meeting on 21 September and faces a similar decision regarding the direction of Bank Rate. A poll of economists is predicting a hike of 25 basis points to 5.5%, which would take the rate to its highest point in over 15 years.

The US Federal Reserve are also meeting this week to discuss monetary policy. With three scheduled meetings for the rest of the year, it will be interesting to see what moves they make to fulfil their targets of controlling inflation and maintaining full employment.

Here to help

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