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## News in Review

27 March 2024

*"We have turned a corner after the shocks of the past few years"*



**Inflation has fallen to its lowest level in almost two and a half years, according to data released by the Office for National Statistics (ONS) last week. The Consumer Prices Index (CPI) increased by 3.4% in the 12 month period to February 2024, reducing from the 4.0% figure recorded in January.**

Food prices were cited as one of the largest downward contributors to the monthly change, with the annual rates for most types of food products easing between January and February. The largest effect came from price reductions in bread and cereals.

Following the data release, Prime Minister Rishi Sunak commented, *"We have turned a corner after the shocks of the past few years,"* before adding that *"we are in a new economic moment."* Mr Sunak believes that this year will *"prove to be the year that the economy bounces back."*

The reduction to 3.4% was slightly lower than economists' expectations of a 3.5% increase in the year to February. The better-than-forecast data has led to predictions that the Bank of England (BoE) will begin reducing interest rates in the coming few months.

### **MPC hold firm**

Last week, during their second meeting of the year, the BoE's Monetary Policy Committee (MPC) voted to retain Bank Rate at 5.25% by a majority of eight to one. One member of the committee preferred to reduce the rate by 0.25 percentage points to 5%.

Interestingly, this was the first meeting since September 2021, that no one on

the nine-person committee voted for an increase and two members who voted to raise rates at the last meeting in February, shifted to a 'hold' vote this time.

The decision to retain Bank Rate was widely expected, BoE Governor Andrew Bailey commented on the outcome, saying the economy is *"not yet at the point"* where rates can be lowered, but that things are *"moving in the right direction."*

One area of concern seems to be that despite the slowdown in inflation, *'key indicators of inflation persistence remained elevated,'* according to the BoE, adding that inflation in the services sector *'remains elevated at 6.1%.'* Something they'll no doubt keep a close eye on over the next month or so before the next MPC meeting which will conclude on 9 May.

### **Meanwhile, across the pond...**

Last week, the US Federal Reserve held its key interest rate steady, with the Federal Open Market Committee voting to retain the benchmark borrowing rate in a targeted range between 5.25% – 5.5%, as widely anticipated.

The current federal funds rate level is the highest in over 23 years. Officials have implied three quarter-percentage point cuts by the end of 2024, the first reductions since the beginning of the pandemic. The likelihood of these three cuts in 2024 has been derived from the banks 'dot plot,' which is essentially a matrix of anonymous projections from the 19 officials who comprise the Federal Open Market Committee (FOMC).

Although choosing not to elaborate on the timing of any reductions, Fed Chairman Jerome Powell said he expects the cuts to come, as long as the data complies, *"We believe that our policy rate is likely at its peak for this type of cycle, and that if the economy evolves broadly as expected, it will likely be appropriate to begin dialling back policy restraint at some point this year."*

Global equity markets rallied on the prospect of interest rate cuts in the coming months by the UK, US and Europe.

### **Consumer confidence...**

On Friday, the latest data from GfK showed that overall consumer confidence remained flat in March at -21, mirroring the February reading. The index measuring consumers' confidence in their personal financial situation over the last year was up one point to -13, while the same measure looking ahead to the next 12 months, increased to a reading of 2, which is 23 points higher than this time last year. This personal finance measure is the first positive reading and the highest score since December 2021. Client Strategy Director at GfK, Joe Staton, commented on the recent data set, *"This is welcome news given the challenges faced by Britons of fiscal drag, higher costs for fuel, rising council taxes and utilities eroding any increases in wages or other income. But is there a note of worry this month? Look back to last year and it's clear the improvements in consumer confidence seen most months since January 2023 have vanished."*

### **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.***

***All details are correct at time of writing (27 March 2024)***