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News in Review

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"With UK inflation finally falling below the US, its unwanted outlier status is over"

New data from the Office for National Statistics (ONS) showed the Consumer Prices Index (CPI) rose by 3.2% in the 12 months to March 2024, down from 3.4% in February. The March CPI rate is the lowest in two and a half years and considerably down on the peak of 11.1% in October 2022.

Food inflation was the largest downward contributor to the monthly change in CPI, with prices rising by less than a year ago. Prices of food and non-alcoholic beverages increased by 4% over the 12 months to March (down from 5% in February), their weakest rise since November 2021, and the twelfth consecutive monthly easing. The largest upward contributor was an increase in fuel prices, with international oil prices climbing in March as growing tensions in the Middle East impact.

Senior Economist at the Resolution Foundation, Simon Pittaway commented on the new data release, *"Many economies have struggled through an inflation-driven cost of living crisis over the past two years, but the UK has been an outlier – experiencing a prolonged period of double digit price rises. With UK inflation finally falling below the US, its unwanted outlier status is over. With a further significant drop due next month, inflation should soon return to target – and the pressure to cut interest rates will grow."*

Attending an International Monetary Fund (IMF) event in Washington last week, Bank of England Governor Andrew Bailey, said that different inflation dynamics in Europe and the US could lead to different paths for interest rates. He deduced that with UK inflation falling, the key question for the Monetary Policy Committee (MPC) remains how much more evidence is necessary before starting to cut interest rates.

Global recovery *'steady but slow'*

The bi-annual global growth outlook from the IMF released last week, entitled *'Steady but slow: resilience amid divergence,'* has outlined a global economic growth prediction of 3.2% for both 2024 and 2025 (replicating the growth rate for 2023). This year's forecast has been revised up by 0.1 percentage point from the January World Economic Outlook (WEO), and by 0.3 percentage points from the October 2023 WEO.

According to the outlook, a *'slight acceleration'* is noted for advanced economies, with growth expected to pick up from 1.6% last year, to 1.7% this year and 1.8% in 2025. The expectation is that this uptick in growth will be offset *'by a modest slowdown in emerging market and developing economies,'* tempering from 4.3% growth in 2023 to 4.2% this year and next.

By historical standards, the pace of expansion is low due to a series of factors including the ongoing effects caused by the Russian invasion of Ukraine, the pandemic, weak productivity growth, withdrawal of fiscal support, high borrowing costs and growing geoeconomic fragmentation.

Advanced economies are expected to return to their inflation targets earlier than developing economies and emerging markets. A steady decline in global inflation is predicted, reducing gradually to 4.5% next year, from 5.9% this year.

UK growth expectations

Looking at the UK, growth is expected to reach 0.5% this year, from 0.1% last year, before picking up to 1.5% next year. The 0.5% estimate for 2024 is 0.1% lower than the January prediction, and the second-slowest growth rate among G7 countries, after Germany and lower than the prediction of 0.8% by the Office for Budget Responsibility (OBR) outlined during the Spring Budget. As the lagged negative effects of high energy prices recede and *'disinflation allows financial conditions to ease and real incomes to recover,'* the outlook into 2025 is more promising.

And further afield...

Growth in the US is expected to reach 2.7% this year, an upward revision of 0.6% from the previous prediction in January. GDP stateside is then expected to temper to 1.9% next year, with a combination of fiscal tightening and a softening job market weighing on demand.

Euro area growth is expected to bounce back from estimated GDP of 0.4% last year, to 0.8% this year and 1.5% in 2025. The recovery will likely be driven by improving household consumption, as the knock-on impact of elevated energy prices recedes and falling inflation supports real income growth.

Here to help

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