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News in Review

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"A change in Bank Rate in June is neither ruled out nor a fait accompli"

Last week, during their third meeting of the year, the Bank of England's (BoE's) Monetary Policy Committee (MPC) voted to retain Bank Rate at 5.25% by a majority of seven to two. Two members of the committee preferred to reduce the rate by 0.25 percentage points, to 5%.

The decision to retain Bank Rate was widely expected. Marking its sixth pause in a row, Bank Rate has been held at its current level since August 2023.

In its latest forecast, the Bank was positive on the prospects for the UK economy, predicting inflation will fall to its target level of 2% in the coming months and then to 1.9% in 2026, with economic growth expectations of 0.4% for Q1 2024 and 0.2% for Q2.

The MPC minutes reiterate that monetary policy will need to remain restrictive for *'sufficiently long'* to return inflation to target sustainably in the medium term in line with their remit.

Looking ahead, with the next MPC meeting concluding on 20 June, BoE Governor Andrew Bailey commented, *"Before our next meeting in June, we will have two full sets of data – for inflation, activity and the labour market – that will help us in making that judgement afresh. But, let me be clear, a change in Bank Rate in June is neither ruled out nor a fait accompli."*

Economists are now divided on how far rates will fall in the second half of this year, and when the first rate cut may take place.

Head of Economics at the Institute of Chartered Accountants in England and Wales (ICAEW), Suren Thiru, commented that the vote to keep Bank Rate unchanged was a missed opportunity to provide relief for *"people struggling with their mortgage bills and businesses facing numerous cost pressures… Given the Bank is now forecasting inflation to fall more quickly, an interest rate cut by the end of the summer remains very much on the table."*

Stronger growth than expected

Official data released on Friday confirmed the UK rebounded out of recession with faster-than-expected growth in Q1. According to the Office for National Statistics (ONS), UK gross domestic product (GDP) is estimated to have risen by 0.6% in Q1, following two consecutive quarters of decline, and is the strongest growth rate for two years, since the fourth quarter of 2021, when it rose by 1.5%, as the country emerged from the pandemic.

The data shows that growth in Q1 was driven by service industries, such as arts, hospitality and entertainment, as well as strength in other sectors including retail, public transport, haulage, health, and car manufacturing. An earlier Easter is likely to have supported growth in the quarter.

Looking at the monthly data, Friday's figures showed that GDP in March was 0.7% higher than a year earlier, far exceeding expectations of a 0.3% rise. Services output grew by 0.5% in March 2024, and was the largest contributor to the growth in GDP on both the month and the quarter.

Construction output weighed on growth over both the quarter and the month, falling by 0.4% in March, and by 0.9% in the first quarter of the year. A decline in new work contributed toward the decrease.

Unemployment rate rises

The latest labour statistics from ONS show that the UK's unemployment rate has risen to its highest level for almost a year, increasing to 4.3% between January and March, the highest since May to July last year.

Jobs on offer in the UK dropped by 26,000 to 898,000 vacancies between February and April, meaning that more people are competing for the same jobs. Liz McKeown, ONS Director of Economic statistics said, *"We continue to see tentative signs that the jobs market is cooling."*

ONS data also shows that wage growth remained at 6%, whereas it had been expected to slow to 5.9% in the first three months of this year. This figure will be closely watched by the BoE when deciding if and when Bank Rate can be cut.

Here to help

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