INVICTUS
Independent Financial Advice

Invictus IFA
Minster Gardens,
Nottingham,
NG16 2AT

T: 0115 88 00 244
M: 07793 323027
E: info@invictusifa.co.uk
www.invictusifa.co.uk

News in Review

22 May 2024

"The sheer scale of this near three-year inflation shock has reshaped the economy"

New research from the Resolution Foundation has shone a light on the impact of inflation on the UK economy. The prolonged spike in inflation has *'left British households spending less and saving more'* as elevated prices have affected spending behaviour, living standards and public finances.

Interestingly, contrary to expectations that households would look to borrow or dip into their savings to deal with rising prices, the research highlights that people have focused on saving rather than spending, cutting their consumption by more than their incomes have reduced.

The economic think tank attributes this 'surprise savings boost' is due to households reducing the amount they spend on energy, food and luxury items, in particular.

When compared to the final quarter of 2019, real household disposable incomes have fallen by 1.1%, or £280 per year, with real spending falling much further, reducing by 4.7% or £1,200 annually. The Resolution Foundation says the difference between the two has been ploughed into savings, adding that during Q4 last year, families saved 6% of their disposable incomes, representing the highest rate (excluding the pandemic) in over 30 years.

The report did note that as prices have gradually eased over the last year from their peak (in October 2022), *'almost all of the financial windfall from falling energy prices'* has been allocated to funds for going on holiday or going out, *'while spending on goods has not recovered.'* People are therefore choosing to prioritise spending on experiences and travel over buying goods or items.

James Smith, Research Director at the Resolution Foundation, commented on the findings, *"The sheer scale of this near three-year inflation shock has reshaped the economy and public finances, and changed what people do with their money... The crisis has made us poorer, with the sharp rise in the cost of essentials hitting lower-income families hardest. It has also turned us from a nation of spenders to a nation of savers, with credit card spending falling by 13% and families saving around £54bn a year more than we might have expected. While this high inflation phase maybe largely behind us, its legacy will be felt well into the future."*

The next set of inflation data from the Office for National Statistics (ONS) is due to be released on 22 May. It will be interesting to see how close it is to the Bank of England's 2% target.

Pace of price increases slows in the US

Last week the US Bureau of Labor Statistics reported that inflation, as measured by the change in the Consumer Price Index (CPI), was 3.4% on a yearly basis in April, down from 3.5% in March. In line with market expectations, the mild fall in CPI is unlikely to resolve debate about the Federal Reserve's next steps regarding interest rates. The majority of the increase can be attributed to petrol costs and higher rents.

Eurozone registers growth in Q1

During Q1 2024, the eurozone experienced economic growth of just 0.3%, according to new data from Eurostat. Following two quarters of contraction, placing the euro area in a technical recession, this latest data shows the recession has been exited. Despite gross domestic product expanding in Q1, it was half the pace of the UK's 0.6% expansion in the same period. From a regional perspective, Germany and France both grew by 0.2% in Q1, with Italy experiencing growth of 0.3% and Spain 0.7%.

More data from Eurostat last week showed annual inflation in the eurozone reached 2.4% in April, matching the level recorded in March, in line with expectations.

The European Commission believes that the European Central Bank's (ECB's) 2% target will be met in the latter half of next year. Paolo Gentiloni, the EU's Economy Commissioner concurs, *"We believe we have turned a corner... We expect an uptick in growth this year and further acceleration in 2025. Meanwhile inflation is set to fall further and reach the ECB target next year."*

Here to help

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