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## News in Review

18 September 2024

*"I've been really clear that the Budget... will require difficult decisions"*

**Last week, Chancellor Rachel Reeves, who faced criticism over the Winter Fuel Payment vote, said the Budget on 30 October is set to involve "difficult decisions," on key areas such as spending, tax and welfare.**

Her cautionary tone came hot on the heels of the latest monthly UK GDP data estimates from the Office for National Statistics (ONS), which showed no economic growth in July, following flat growth the previous month. A Reuters poll of economists had forecast a 0.2% expansion in July.

In the three months to July, real GDP is estimated to have grown by 0.5%, supported by widespread growth in the services sector, which increased by 0.6%. The construction sector also recorded growth of 1.2%, while production output decreased by 0.1% over the period. Manufacturing output also fell overall due to 'a particularly poor month for car and machinery firms,' according to ONS.

The Chancellor confirmed, *"I've been really clear that the Budget on 30 October will require difficult decisions... But the prize - if we can bring stability back to our economy, if we can bring investment back to Britain - is economic growth, good jobs, paying decent wages in all parts of our country, to realise the huge potential that we have."*

With an apparent £22bn "black hole" in the public finances, speculation is mounting over the taxes the Chancellor may choose to target on 30 October.

### **Amazon £8bn UK investment**

In positive news for the economy last week, Amazon.com Inc. announced

intentions to spend £8bn in the UK to develop its cloud business (Amazon Web Services, AWS), adding to a series of recent expansion moves on the continent and long-term projects across the globe including in Mexico, Singapore, the US and Saudia Arabia. Providing the government with a welcome investment boost, the five-year investment in data centres is expected to support 14,000 jobs and contribute £14bn to UK GDP. In a Treasury statement, the Chancellor said the investment *"marks the start of the economic revival and shows Britain is a place to do business."*

### **Housing market sees a positive shift**

On Thursday, the Royal Institution of Chartered Surveyors (RICS) outlined expectations for a continuation of sales growth in the coming months. Their latest Residential Survey, which measures the difference between surveyors seeing falls and rises in house prices, moved into positive territory for the first time in almost two years, since October 2022.

Despite easing borrowing costs, the survey highlighted that affordability concerns continue, with Simon Rubinsohn, RICS Chief Economist, confirming *"Affordability remains an issue in the sales market even with somewhat cheaper finance now available, but the picture appears even more acute in the lettings market where the amount of rental stock continues to diminish."*

Meanwhile, mortgage data from the Bank of England showed an increase in gross mortgage advances in Q2, up by 16.7% from Q1 2024 to £60.2bn. This

was 15.5% up year-on-year and the first increase in almost two years (Q3 2022).

### **US inflation falls**

Latest figures from the US Labor Department show a tempering in inflation in August, with consumer prices rising 2.5% in the previous 12 months. Down from 2.9% in July, the August figure is the slowest pace in three and a half years (since February 2021). Although an unexpected rise in housing costs occurred in the month, this was countered by reductions in the price of petrol and used vehicles, amongst other items.

All eyes now turn to the Federal Reserve's next policy meeting which concludes on 18 September, as expectations heighten that the central bank will cut interest rates. Analysts are predicting the inflation data has increased the likelihood of a rate reduction, but by a smaller percentage.

### **And in Europe...**

On Friday, the European Central Bank (ECB) Governing Council unanimously decided to reduce interest rates by 25 basis points to 3.5%. The ECB's inflation forecasts have remained steady, with inflation expected to return to a 2% target during H2 2025. Headline inflation is expected to average 2.5% this year, 2.2% next year and 1.9% in 2026. Christine Lagarde, ECB President, reiterated that the bank will *"continue to follow a data dependent and meeting-by-meeting approach... we are not pre-committing to a particular rate path."*

### **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 (18 September 2024)***