

News in Review

26 January 2022

"It's likely households will face a cost-of-living crunch for much of the year"



The biggest economic story of last week is something impacting everyone's pockets – inflation. Data released from the Office for National Statistics (ONS) on Wednesday revealed that surging food and energy prices had pushed inflation to a near 30-year high of 5.4% in December, up from 5.1% the previous month.

With the dual forces of rising prices and stagnant wages coming into play, the data revealed that increases in the prices of clothing, household goods, restaurants, hotels and furniture also contributed to December's rise in the cost of living. There are calls on the government to take action to protect consumers as prices continue to rise in line with expectations, especially with the situation set to intensify in the spring when the energy price cap rises and National Insurance increases take effect.

Lead Economist at the Confederation of British Industry (CBI) Alpesh Paleja, commented on the latest inflation figures, *"We've not seen the end of rising inflation yet. We expect it to peak in the months ahead, not least if, as expected, the energy price cap is raised. With prices on the rise and real wages already falling, it's likely households will face a cost-of-living crunch for much of this year."*

Omicron takes its toll on the High Street

As virus cases began to escalate in the run-up to the festive period, the High Street was impacted as shoppers chose to stay away, with declines in footfall reported. Consequently, retail sales fell by 3.7% in December, with non-food store sales volumes declining 7.1% in the

month. Although food sales fell by 1% in December, volumes were above pre-pandemic levels. This data is set against very strong sales in November, amid reports there would be some shortages in the run-up to Christmas, prompting people to shop early. Heather Bovill, Deputy Director for Surveys and Economic Indicators at ONS commented on their data release, *"Despite the fall in December, retail sales are still stronger than before the pandemic, with over a quarter of sales now made online."* Fuel sales were also impacted – volumes fell by 4.7% in the month as Plan B restrictions in England meant more people worked from home.

Property market "strength and resilience"

December property stats landed last week, with HMRC data showing that 100,110 transactions were conducted in the month. This brings total UK property transactions to nearly 1.5 million last year, a 26% increase on pre-pandemic levels, resulting in 2021 being the busiest year for the housing market since 2007. Former RICS Residential Chairman Jeremy Leaf commented on the findings, *"These numbers interestingly demonstrate market strength and resilience even in the build-up to Christmas and withdrawal of government economic support in September... However, we have moved on since December. Activity and price rises are slowing a little, not least because of the continuing shortage of stock but concerns about rising inflation and mortgage rates is also compromising confidence when it comes to taking on debt."*

According to National Association of Estate Agents PropertyMark data, the

average number of house hunters registered per estate agent branch stood at 461 in December, the highest number on record and an increase of 33% from December 2020. However, the number of properties available per member branch stood at just 19 in December, the lowest figure ever recorded.

Updated UK forecast

The International Monetary Fund (IMF) revealed on Tuesday that expected UK growth for 2022 has been cut to 4.7%, down from a previous estimate of 5%. However, the UK remains set to be the fastest growing economy in the G7 industrialised nations for a second consecutive year. The IMF warned uncertainties such as the emergence of new COVID-19 variants could *'prolong the pandemic and induce renewed economic disruptions.'*

Markets

With concerns over military conflict in Ukraine mounting, global stock markets faltered early this week, as investors embraced safe-haven assets including the US dollar. Uncertainty also weighed over the imminent Federal Reserve meeting and the likelihood of an interest rate rise, as well as the possible removal of stimulus measures. The IMF downgrade impacted Wall Street stocks further on Tuesday. After a one-month low on Monday, the FTSE 100 benefited from strength in banking and commodity stocks.

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.