

News in Review

20 April 2022

"We are facing a crisis on top of a crisis"



Speaking in Washington DC prior to the release of the International Monetary Fund's (IMF) biannual World Economic Outlook this week, Managing Director Kristalina Georgieva previewed her thoughts on the global economy. Opening her speech, she declared, "To put it simply: we are facing a crisis on top of a crisis... First, the pandemic: it turned our lives and economies upside down - and it is not over... Second, the war: Russia's invasion of Ukraine, devastating for the Ukrainian economy, is sending shockwaves throughout the globe."

Initially focusing on the human tragedy of the invasion and displacement of over eleven million people, she went on to speak about the far-reaching consequences of the war, in particular inflation, which she described as *"a clear and present danger for many countries around the world."* Given the war's direct impact on Russia and Ukraine, and global ramifications, the IMF now projects global growth of 3.6% in 2022 and 2023, a reduction of 0.8 and 0.2 percentage points from the January forecast. Warning that the forecast was marked by *'unusually high uncertainty,'* the outlook highlighted that further sanctions on Russian energy and a widening of the war, combined with a sharper deceleration in China and a flare-up of the pandemic, could further slow growth and intensify inflation, while rising prices could trigger social unrest and lead to the fragmentation of the world economy.

Although the UK is expected to be the joint-best performer in the G7 this year, its economic growth was downgraded

to 3.7% this year from 4.7% predicted in January, with further growth downgrades predicted in 2023.

UK inflation soars

Latest inflation data released by the Office for National Statistics (ONS) last Wednesday, showed that the Consumer Prices Index (CPI) rose by 7% in the 12 months to March 2022, up from 6.2% the previous month, representing the highest rate of inflation in 30 years. Fuel had the biggest impact on the rate, with average petrol prices rising by 12.6p per litre between February and March, the largest monthly rise since records began in 1990; this compares to a 3.5p per litre rise between February and March 2021.

Senior Economist at the Resolution Foundation, Jack Leslie, commented on the latest findings, *"Inflation last month reached levels not seen since the early 1990s, but it is still well below the price pressures families are currently experiencing with the recent energy price cap likely to have taken inflation up to over 8% in April. With wages not keeping pace, he warned Britain's cost-of-living crisis was "on track to be the biggest squeeze since the mid-70s" and "will continue to worsen before it starts to ease at some point next year."*

He continued, *"The sheer scale of this inflation-led squeeze on living standards makes it all the more remarkable how little support the Chancellor provided in his Spring Statement - a decision that will surely have to be revisited before the Autumn Budget."*

House price growth

According to data from real estate consultancy Knight Frank, it is expected

that annual house price growth will reach 5% in 2022, before slowing considerably to just 1% in 2023. It is anticipated that the combination of more housing stock and the full force of higher mortgage rates will cause demand to slow. Head of UK Residential Research at Knight Frank, Tom Bill, commented, *"We are seeing a strong start to this year, with house price growth still in double digits. In 2023, the whole calendar year will be in a different place - higher mortgage rates will start to kick in, and we'll start to see a more balanced supply and demand situation."*

Markets

Prior to the bank holiday weekend, Europe's markets climbed on news that the European Central Bank (ECB) intended to continue with its dovish monetary policy stance to wind down its stimulus plan. ECB President Christine Lagarde commented, *"The downside risks to the growth outlook have increased substantially as a result of the war in Ukraine... We will maintain optionality, gradualism and flexibility in the conduct of our monetary policy."* Following the long weekend, the IMF forecast weighed on global market sentiment, as did China's latest data release showing a fall in consumer spending and rising unemployment. On Tuesday, the FTSE 100 closed down 15.1 points at 7,601.28.

Here to help

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