

News in Review

11 May 2022



"Monetary policy must... navigate a narrow path"

Interest rate rises were big news last week on home shores, across the pond and in Australia, as central banks acted in an effort to curb inflation. The Monetary Policy Committee voted by a 6-3 majority to increase Bank Rate by 0.25 percentage points to 1%, with further tightening expected in the coming months. Interestingly, the three members in the minority favoured increasing Bank Rate by 0.5 percentage points to 1.25%. This is the fourth consecutive increase since December last year; at 1%, the rate has reached its highest level in 13 years.

Bank of England (BoE) Governor Andrew Bailey defended the rate rise at a time when the cost of living is increasing, saying that the risk of letting inflation get out of control was higher. The BoE are expecting the UK economy to contract by nearly 1% in Q4 2022 and stay flat next year.

Mr Bailey spoke about the impact of intensifying global inflationary pressures amid rising supply chain disruption concerns due to the Ukraine invasion and COVID developments in China, *"These developments have exacerbated greatly the challenges already facing the UK, and many other economies... monetary policy must, therefore, navigate a narrow path between the increased risks from elevated inflation and a tight labour market on one hand, and the further hit to activity from the reduction in real incomes on the other."*

The MPC's central projection for CPI inflation is a rise over the remainder of the year. The rate is expected to reach 9% in the coming months, before

reaching 10.25% by the end of Q4. The next MPC meeting is scheduled for 16 June.

On Tuesday, Prince Charles delivered the Queen's Speech in Parliament, setting out the government's agenda for the coming year. He said the government's priority *"is to grow and strengthen the economy and help ease the cost of living for families."*

Largest US interest rate rise since 2000 – but labour stats hold steady

Last Wednesday, the Federal Reserve moved to raise interest rates by 50 basis points – the largest rate rise in 22 years, with similar moves likely for June and July. US central bank chair Jerome Powell appealed to Americans to be patient while officials take measures to control inflation. During a post-meeting press conference in Washington, Mr Powell justified the move, *"Inflation is much too high and we understand the hardship it is causing, and we're moving expeditiously to bring it back down."*

Despite concerns over price rises, employers added 428,000 jobs in April, marking the 16th month of expansion. After wiping out 22 million jobs in the early months of the pandemic, the US economy has recovered more quickly than expected.

Also last week, Australia's central bank, the Reserve Bank of Australia, raised the nation's interest rates for the first time in over a decade.

Travel recovery prompted by pent-up demand

People appear keen to get travelling again, recent insight has indicated. Pent-up demand and the easing of curbs have led to an upswing in both short and medium-haul trips, and hotel bookings.

Chief Executive of the Egan-Jones Ratings Company, Sean Egan commented, *"The big overlay is that air travel demand is back, and it is back in a massive way."*

Even with rising costs and staff shortages, airlines expect a return to profitability this year. IAG, the owner of British Airways, expects to be profitable from Q2 onwards and for the whole year, despite having to cut capacity in Q1. Luis Gallego, IAG Chief Executive commented, *"Premium leisure continues to be the strongest performing segment and business travel is at its highest level since the start of the pandemic."*

IAG, which also owns Iberia, Vueling and Aer Lingus, forecasts passenger capacity to be around 80% of 2019 levels in Q2, rising to 90% by Q4. Lufthansa said they expect to return to an operating profit in Q2, while Air France-KLM has seen a recovery in ticket sales and strong summer bookings.

Positive news for household finances – average cost of car insurance falls 5%

With household finances feeling the squeeze, some good financial news at last! After the Financial Conduct Authority ended loyalty premiums for existing customers at the start of January, according to the ABI's latest Motor Insurance Premium Tracker, the average price paid by motorists for their motor insurance in Q1 reduced by 5% to its lowest level in almost seven years (since Q3 2015).

Here to help

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