

News in Review

21 December 2022

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At the Monetary Policy Committees' (MPCs') December meeting, members voted by a majority of six to three to increase Bank Rate from 3% to 3.5%. The ninth consecutive hike, rates are now at their highest level for 14 years. With inflationary pressures persisting, the MPC said they 'will respond forcefully as necessary.'

Last week, the Office for National Statistics (ONS) latest data shows the Consumer Prices Index (CPI) rose by 10.7% in the 12 months to November 2022, down from 11.1% in October. The easing in the annual inflation rate in November reflected price changes in motor fuels and second-hand cars. There were also downward effects from tobacco, accommodation services, clothing and footwear, and games, toys and hobbies.

Bank of England Governor Andrew Bailey said there were signs inflation was now beginning to ease from its 41-year high, but that the Bank still needed to raise rates to offset pressures from a tight labour market, *"We've seen possibly this week, the first glimmer that (inflation) is not only beginning to come down, but it was a little bit below where we thought it would be. That's obviously very good news. But there's a long way to go."*

The next MPC meeting concludes on 2 February 2023.

US and Euro Area follow suit

Also last week, in the US the Federal Reserve rate setting committee members

voted unanimously to increase its key benchmark rate by 0.5 percentage points to make the target range 4.25% to 4.5% - the highest it has been in 15 years. Along with the increase came an indication that officials expect to keep rates higher through next year, with no reductions until 2024. The US Consumer Price Index rose just 0.1% in November, a smaller increase than expected as the 12-month rate dropped to 7.1%. Fed Chair Jerome Powell said the recent news was welcome, but he still sees services inflation as too high, adding, *"There's an expectation really that the services inflation will not move down so quickly, so we'll have to stay at it... We may have to raise rates higher to get where we want to go."*

The European Central Bank (ECB) opted for a smaller rate rise in December, taking its key rate from 1.5% to 2%. The ECB said it would need to raise rates 'significantly' further in order to temper inflation. From March 2023 the ECB expect to begin reducing its balance sheet by €15bn per month on average until the end of Q2 2023. The central bank said it expects inflation to remain above its 2% target until 2025, with average inflation of 8.4% in 2022, 6.3% in 2023 and 3.4% in 2024. The ECB expects recession in the region to be 'relatively short-lived and shallow.'

Scottish Budget key points

On 15 December, Deputy First Minister John Swinney outlined the Scottish government's tax and spending plans for the year ahead, announcing increases in

Income Tax for everyone earning more than £43,662. From April 2023 the Top Rate threshold will be reduced from £150,000 to £125,140 and the Higher and Top Rates of tax will rise to 42% and 47% respectively.

Spring Budget 2023

On Monday, Chancellor Jeremy Hunt confirmed he will set out a Spring Budget on 15 March 2023. In a written statement he outlined that he has asked the Office for Budget Responsibility (OBR) to prepare a forecast to accompany the Budget. This forecast, along with the one prepared for the Autumn Statement in November, will fulfil the obligation for the OBR to produce two forecasts every financial year. The Spring Budget will allow the Chancellor to reassess the energy market and the effect of interest rate increases.

Retailers rely on festive rush

Retailers are hoping for a Christmas boost following disappointing November sales figures. On Friday, the Office for National Statistics (ONS) reported that retail sales volumes are estimated to have fallen by 0.4% in November. Helen Dickinson, Chief Executive of the British Retail Consortium, said, *"Black Friday provided a small boost to retailers, but there are signs that many consumers are holding off Christmas spending until the last moment."*

Here to help

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