

News in Review

29 March 2023

"We were really a bit on a knife edge as to whether there would be a recession... but I'm a bit more optimistic now"



Last Wednesday, the Bank of England's Monetary Policy Committee (MPC) voted to increase Bank Rate to 4.25%, the highest level for 14 years.

Seven members of the committee opted for a 0.25% rise, with the two dissenting voices preferring to maintain it at 4%. Analysts now expect the rate to peak at 4.5% in the summer.

The decision to increase Bank Rate followed the announcement that inflation had reached 10.4% in the year to February, its highest level for 40 years. Although inflation is expected to fall significantly in the second quarter of 2023, higher prices continue to put a strain on household spending.

A higher Bank Rate will translate into increased mortgage costs for some homeowners, though savers could benefit from better returns. People with typical tracker mortgage deals are expected to pay about £24 extra each month as a result of the latest rate rise.

Following the increase decision, Governor of the Bank of England Andrew Bailey said he is *"much more hopeful"* for the UK economy. *"We were really a bit on a knife edge as to whether there would be a recession... but I'm a bit more optimistic now,"* he added.

Second-hand strength boosts sales

Retail sales volumes rose by 1.2% in February, according to official figures released by the Office for National Statistics (ONS) on Friday, the biggest monthly gain since October 2022. Volumes have recovered to pre-pandemic

levels, the ONS said, although remain 3.5% lower than a year ago.

The surprise boost resulted partly from a strong performance from discount and second-hand stores, such as auction houses and charity shops, amid ongoing cost-of-living difficulties. In total, non-food sales rose by 2.4% last month.

Food store sales rose too – by 0.9% in February compared to 0.1% in January. The ONS reported some anecdotal evidence, however, of reduced spending in restaurants and on takeaways because of cost-of-living pressures.

Darren Morgan, ONS Director of Economic Statistics, cautioned that, despite the positive data in February, *"The broader picture remains more subdued, with retail sales showing little real growth, particularly over the last 18 months with price rises hitting consumer spending power."*

UK House Price Index

The latest UK House Price Index, released last Wednesday, presented a mixed picture, with average house prices rising by 6.3% in the year to January, down from 9.3% in December.

The average house price (£290,000) was £17,000 higher than a year previously. Across the UK, Northern Ireland (10.2%) and England (6.9%) have the biggest annual increases, ahead of Wales (5.8%) and Scotland (1.0%).

On a seasonally adjusted basis, however, the average house price decreased by 0.6% in January, following a decrease of 0.4% in December 2022.

Global financial stability at risk – IMF Chief

Speaking at a forum in Beijing on Sunday, Managing Director of the International Monetary Fund (IMF) Kristalina Georgieva said that risks to financial stability had increased after the recent turbulence in the banking sector, although she reiterated that she felt actions by advanced economies had helped to calm market stress. She expects the world economy to expand by under 3% this year, as scarring from the pandemic, the war in Ukraine and monetary tightening continue to weigh. She concluded, *"Fortunately, the news on the world economy is not all bad. We can see some 'green shoots,' including in China."*

New SNP leader

Humza Yousaf has been chosen as the new Scottish National Party (SNP) leader and Scotland's First Minister by the party membership. Following the surprise resignation of Nicola Sturgeon last month, Mr Yousaf defeated Kate Forbes and Ash Regan in a contest in which 50,490 of the SNP's 72,169 members cast a ballot.

The 37-year-old, previously Scotland's Health Secretary, will become the first Muslim to lead a major UK political party. He had been the clear favourite throughout the contest and won with 52.1% of the votes after second preference votes.

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