

News in Review

19 July 2023

"Our plan will work, but we must stick to it"



Official figures released last week by the Office for National Statistics (ONS) showed that UK gross domestic product (GDP) contracted by 0.1% in May. Analysts pointed to the additional bank holiday for the coronation as a key factor in this decline.

By falling into reverse, the GDP figures came in below City forecasters' expectations; they were also notably worse than the 0.2% expansion recorded in April. The decline raises the possibility of the UK slipping into a technical recession (two consecutive quarters of negative growth) later this year.

Darren Morgan of ONS commented, *"Despite the Coronation Bank Holiday, pubs and bars saw sales fall after a strong April. Employment agencies also saw another poor month."*

Chancellor Jeremy Hunt noted that inflation was a key driver of the current slump. He stated, *"The best way to get growth going again and ease the pressure on families is to bring inflation down as quickly as possible. Our plan will work, but we must stick to it."*

Five-day strike for junior doctors

Last Thursday, junior doctors began a five-day strike in England over pay. After 15 years of below-inflation pay rises, junior doctors are demanding a 35% boost to wages. These strikes are the fourth walkout by junior doctors in England since the dispute began.

As a result of the strike action, thousands of planned appointments were postponed. Senior doctors filled in to provide emergency care ahead of a separate strike by NHS consultants that is due to take place later this week. The strikes add pressure to the NHS at a time of record waiting lists. At the end of May, 7.47 million people were waiting to start routine hospital treatment, according to official figures.

"No more talks on pay" after new offer

With rising discontent and the threat of industrial action across the public sector, the government last week announced new pay offers for teachers, police officers and junior doctors.

In the new offer, police and prison officers would receive a 7% pay rise, while teachers and junior doctors would be awarded 6.5% and 6% rises respectively. The British Medical Association (BMA) called the offer *'derisory'*, but four teaching unions recommended that members accept the offer and end strike action.

Prime Minister Rishi Sunak stressed that the rises would not be funded by borrowing more or increasing taxes. He commented, *"There will be no more talks on pay. We will not negotiate again on this year's settlements and no amount of strikes will change our decision."*

Mortgage costs to rise for millions

Close to one million households will experience a rise in their mortgage payments of at least £500 a month by the end of 2026, according to the Bank

of England (BoE). In a recent report, the BoE admitted that mortgage holders *'may struggle with repayments'* on loans. It noted though that lenders are strong enough to withstand an increase in customers defaulting on repayments.

US inflation drops sharply

Last Wednesday, it was announced that US inflation in June had fallen to its slowest pace in more than two years, though analysts are still predicting that the Federal Reserve will raise rates again at its next meeting towards the end of July.

Cheaper used cars helped bring inflation down to 3% in the year to June, official data revealed, a sizeable drop from 4% recorded a month earlier. Most significantly, energy prices fell 16.7% over the last year, with gas prices down 26.5%.

The latest inflation reading is significantly lower than a peak of more than 9% recorded in June 2022 and represents the slowest rise in prices since March 2021. Core US inflation, meanwhile, fell to 4.8%, the lowest since October 2021.

Speaking to Congress, Federal Reserve Chair Jerome Powell said, *"Over the past year, we have taken forceful actions to tighten the stance of monetary policy. We have covered a lot of ground, and the full effects of our tightening so far are yet to be felt. Even so, we have more work to do."*

Here to help

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