HOWARD
WEALTH MANAGEMENT

Fareham Innovation Centre,
Merlin House, 4 Meteor Way,
Lee-On-The-Solent, Hampshire PO13 9FU

T 02393 877630
E info@howardwealth.com
W www.howardwealth.com

News in Review

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'A resilient financial sector'

Interest rates in the UK will need to stay higher for longer than previously forecast to tackle inflation, the International Monetary Fund (IMF) warned last week, despite improvements in the country's economic outlook since the start of 2023.

With cheaper energy, better relations with the European Union and calmer financial markets, the IMF expects UK gross domestic product (GDP) to grow by 0.4% this year and 1.0% in 2024. These figures are in line with previous forecasts released by the IMF in May and significantly better than April's forecast that the economy would shrink by 0.3% this year. The IMF report stated that the upward revision was due to *'stronger-than-expected consumption and investment from the confidence effects of falling energy prices, lower post-Brexit uncertainty (following the Windsor Framework agreement), and a resilient financial sector as the March global banking stress dissipates.'*

Globally, the IMF improved its outlook on growth to 3%. Increased post-pandemic travel, as well as a strong jobs market and services sector, helped cause the 0.2% improvement from April's forecast, though the IMF warned that rampant consumer prices and higher interest rates remained risks in developed nations.

Sunak backs new oil and gas

On Monday, Prime Minister Rishi Sunak defended his government's decision to grant 100 new North Sea oil and gas licences, claiming that these were *"entirely consistent"* with the UK's net zero commitments.

On a trip to a carbon capture project in Aberdeenshire, Mr Sunak said, *"Even when we reach net zero in 2050, a quarter of our energy needs will still come from oil and gas, and domestic gas production has about a quarter or a third of the carbon footprint of imported gas."* Mr Sunak also lauded the highly skilled jobs that carbon capture projects could provide.

The announcement sparked concern, however, amongst climate campaigners. Oxfam Climate Change Policy Adviser Lyndsay Walsh commented, *"Extracting more fossil fuels from the North Sea will send a wrecking ball through the UK's climate commitments at a time when we should be investing in a just transition to a low carbon economy and our own abundant renewables."*

Car production up in June

UK car production rose 11.7% in the first half of the year, according to figures published last week by the Society of Motor Manufacturers and Traders (SMMT). This represents the best first half year since 2021.

With a 16.2% rise in June, this was the fifth consecutive month of growth for production, thanks in part to an improving global supply chain. Electric vehicle (EV) production roared into life, with a 71.6% increase to 170,231 units – a H1 record.

Mike Hawes, SMMT Chief Executive, said, *"UK car manufacturing is growing again, with production – especially of electrified models – increasing and major investment announcements making headlines. This is testament to the resilience of the sector and its undoubted strengths – a skilled and productive workforce, world-class R&D, and efficient, productive plants."*

House prices at lowest in 14 years

UK house prices fell annually by 3.8% in July, according to Nationwide's House Price Index, which was released on Tuesday, the biggest decline since July 2009.

Amid higher interest rates and cost-of-living pressures, the average price of a home in the UK is now £260,828, 4.5% below a peak in August last year. Affordability remains a key challenge for buyers, according to Nationwide, after mortgage costs reached their highest level for 15 years.

Robert Gardner, Chief Economist at Nationwide, said, *"A prospective buyer, earning the average wage and looking to buy the typical first-time buyer property with a 20% deposit, would see monthly mortgage payments account for 43% of their take home pay – assuming a 6% mortgage rate. This is up from 32% a year ago and well above the long-run average of 29%."*

Change to alcohol duties

Changes to alcohol duties, originally scheduled for February, have now come into effect after having been postponed by Chancellor Jeremy Hunt during the cost-of-living crisis. There will be a 10.1% rise in alcohol duties as well as an overhaul of the system. Drinks with alcohol by volume (ABV) below 3.5% will be taxed at a lower rate, but tax on drinks with ABV over 8.5% will stay the same, whether it is wine, spirit or beer.

Here to help

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