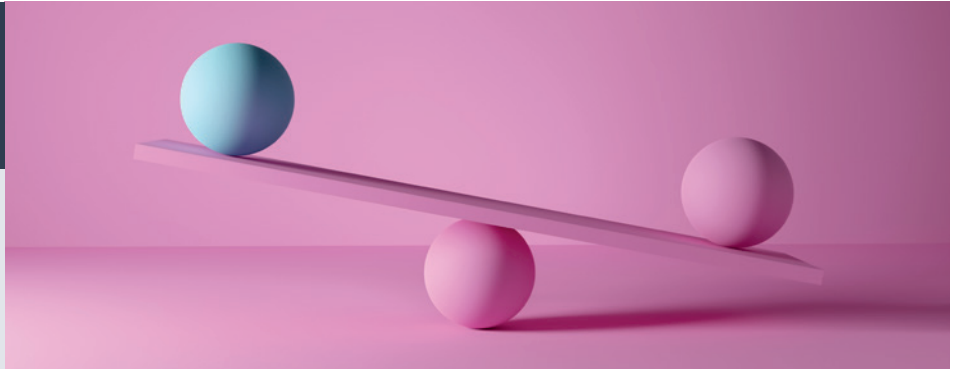


News in Review

30 August 2023

"The fight against inflation is carrying a heavy cost in terms of heightened recession risks"



Early S&P Global/CIPS UK Purchasing Managers' Index (PMI) survey data for August has highlighted that weaker household spending and increasing interest rates contributed towards a decline in demand for both services and goods during the month.

The key business survey, monitoring economic measures including orders and employment, showed the output index fell more steeply than analysts expected, reducing from 50.8 in July to 47.9 in August, the first reading under 50 (indicating a contraction in output) since January. This contraction brings to a close a six-month period of economic expansion and marks the fastest rate of decline in over two and a half years (since January 2021).

A clear toll has been taken on the manufacturing sector with its PMI index contracting to a 39-month low of 42.5. Meanwhile the services index reduced to a seven-month low of 48.7.

Chief Business Economist at S&P Global Market Intelligence, Chris Williamson, commented that the data suggests inflation *"should moderate further in the months ahead, but also indicates that the fight against inflation is carrying a heavy cost in terms of heightened recession risks... A renewed contraction of the economy already looks inevitable, as an increasingly severe manufacturing downturn is accompanied by a further faltering of the service sector's spring revival. The survey is indicative of GDP declining by 0.2% over the third quarter so far."*

We await further UK GDP data releases in the coming weeks.

Consumer confidence

The latest consumer confidence index from GfK, measuring people's perception of economic prospects and their personal finances, has shown a rise of confidence during August, aided by the combination of accelerating wage growth and moderating energy prices. Making up most of the ground lost last month and returning to similar levels last seen at the beginning of 2023, the August figure (five point rise to minus 25) was stronger than the small uplift to minus 29 forecast by a poll of economists.

Jackson Hole news

The annual Jackson Hole Economic Symposium took place in Wyoming on 24-26 August, with central bankers, policymakers and economists descending from around the globe. Federal Reserve Chairman Jerome Powell delivered a keynote speech, during which he said the central bank may need to continue raising interest rates to complete the job of lowering inflation on a sustained basis.

Also in attendance, Christine Lagarde, European Central Bank (ECB) President, was talking about how global central banks are operating in an uncertain environment, adding that in order to lower inflation to target in the eurozone, policy makers will have to set interest rates as high as needed and leave them there for as long as necessary.

She commented, *"Policymaking in an age of shifts and breaks requires an open*

mind and a willingness to adjust our analytical frameworks in real time to new developments. At the same time, in this era of uncertainty, it is even more important that central banks provide a nominal anchor for the economy and ensure price stability in line with their respective mandates."

Energy bill reductions

Last week, Ofgem the energy regulator, announced a reduction in the energy price cap in Q4, meaning a dual-fuel annual energy bill for a household using a typical amount of electricity and gas is set to temper to £1,923 in October, saving households an average of £151 versus Q3, representing a £577 reduction on last winter. Prices remain high by historical standards, with analysts suggesting that prices could rise again in Q1 2024.

Jonathan Brearley, Chief Executive of Ofgem commented, *"We know people are struggling with the wider cost of living challenges and I can't offer any certainty that things will ease this winter... There are signs that the financial outlook for suppliers is stabilising... this means there should be no excuses for suppliers not to be doing all they can to support their customers this winter."*

By the winter, Ofgem is intending to introduce a consumer code of conduct outlining clear expectations regarding supplier behaviours, particularly targeted at the most vulnerable customers.

Here to help

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