

News in Review

09 August 2023

"Inflation is falling and that's good news"



Last Thursday, the Bank of England's (BoE) Monetary Policy Committee (MPC) voted to increase Bank Rate to 5.25%, a fourteenth consecutive rise that has taken Bank Rate to its highest level in 15 years.

At the MPC meeting, the nine-member committee was split three ways, with six voting for the winning quarter percentage point rise, two favouring a more aggressive 0.5% rise and one opting to hold rates at 5%.

Equally significant was the BoE's statement that rates will stay higher until inflation is back under control, the first time that this signal has been given so strongly. The MPC's minutes stated that it plans to ensure rates stay *'sufficiently restrictive for sufficiently long to return inflation to the target [of 2%]*.

Speaking after the MPC meeting, Andrew Bailey, BoE Governor, said, *"Inflation is falling and that's good news. We know that inflation hits the least well-off hardest and we need to make sure that it falls all the way back to the 2% target. That's why we've raised rates to 5.25% today."*

Mr Bailey now expects the UK's next inflation figures, for the year to July, to drop to about 7%. Some analysts urged caution, however, pointing out that six of the BoE's past eight inflation forecasts have been overly optimistic. Mr Bailey also said that the Bank expects inflation to fall to around 5% in October.

The latest Bank Rate rise will result in higher mortgage and loan payments for millions of people at a time when soaring prices are already squeezing household

budgets. On the other hand, higher rates should lead to better returns for savers. Overall, the economy has been *"much more resilient"* than some had feared, according to Mr Bailey.

US credit rating downgraded

Last Wednesday, the US government suffered a setback when Fitch downgraded the country's credit rating from the top level of AAA to AA+.

Concerns over the state of the country's finances and debt burden, as well as a *'steady deterioration'* in governance over the past two decades played a role in the decision, according to Fitch, which is one of three major independent agencies that assess creditworthiness.

Responding to the downgrade, US Treasury Secretary Janet Yellen called the downgrade *"arbitrary"* and said that the decision had been made based on *"outdated data"*. The US now occupies the second highest rung of Fitch's ratings, alongside the likes of Austria, Finland and New Zealand.

Wet weather dampens summer shopping

July's wet weather stopped shoppers updating their summer wardrobes and stocking up on other seasonal goods, latest figures from the British Retail Consortium (BRC) suggest. BRC said rising interest rates were also squeezing shoppers' budgets. The value of retail sales was 1.5% higher in July compared to a year ago, but volumes were lower once inflation was taken into account. Online sales also continued to slide, falling nearly 7% year-on-year.

As the UK faced its sixth wettest July since records began in 1836, a drop in footfall of 0.3% compared to July 2022 was reported by retail analysis firm Springboard. High Streets in coastal towns were hit especially hard, the analysis suggests, with footfall dropping by 4.6%.

EV demand keeps growing

In good news for UK car sales, the latest data from the Society of Motor Manufacturers and Traders (SMMT) showed that some 143,921 new vehicles were registered last month, up 28.3% on the same period last year.

Last month was the best July since 2020, with demand for electric vehicles (EVs) especially gathering pace.

Starting next year, the government's proposed a zero-emission vehicle target would force manufacturers to ensure that 22% of their total car sales were from BEVs.

SMMT Chief Executive Mike Hawes commented, *"With inflation, rising costs of living and a zero-emission vehicle mandate that will dictate the market coming next year, consumers must be given every possible incentive to buy."*

"While the growth in electric vehicles hitting UK roads is significant, it must move even faster if it is to outpace the rest of the market and enable the UK to meet ambitious but necessary environmental targets."

Here to help

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