

News in Review

09 October 2024

“Geopolitical concerns are very serious”

Last Thursday, Bank of England (BoE) Governor Andrew Bailey spoke in an interview about the pace at which interest rates are being cut. With two more Monetary Policy Committee (MPC) meetings this year, the Governor said the Bank could afford to be “a bit more aggressive” with its rate reduction approach, while acknowledging inflation as a key factor in the equation.

With inflation just above the BoE's target of 2%, although Mr Bailey was optimistic borrowing costs will continue on a downward trajectory, he did caution that inflation remaining low is “vital” to support this.

Paying close attention to developments in the Middle East, the Governor spoke about the potential impact on oil prices, which could fuel inflation if supply becomes disrupted. After acknowledging the tragedy of the unfolding situation in the region, he said, *“Geopolitical concerns are very serious... There are obviously stresses and the real issue then is how they might interact with some still quite stretched markets in places.”* He added that, following interactions with counterparts in the region, at present there appears to be a “strong commitment to keep the market stable.”

As the weeks tick down to the widely anticipated Autumn Budget on 30 October, Mr Bailey spoke about the key structural issues impacting the UK (specifically an ageing population, climate change and defence spending), and that the focus of the government on capital investment is the right approach, *“There is a clear need for it in terms of infrastructure.”*

Manufacturing boost but business confidence slumps

Production volumes in the UK's manufacturing sector experienced a ‘solid increase’ in September, according to the latest S&P Global UK Manufacturing Purchasing Managers' Index (PMI) released last week.

With a headline reading of 51.5 putting volumes above the neutral 50.0 mark for the fifth successive month, the UK manufacturing sector is continuing its solid performance in 2024, managers concurred. Figures for output, new orders and suppliers' delivery times all rose in September, along with consumer and intermediate goods sectors.

Two other sub-components performed less well, however, with small drops for levels of employment and stocks of purchases. Perhaps more significantly, the survey also showed that business optimism had fallen to a nine-month low in September, as companies saw the biggest decline in sentiment about the year ahead since March 2020.

Commenting on the data, Rob Dobson, Director at S&P Global Market Intelligence, said, *“Uncertainty about the direction of government policy ahead of the coming Autumn Budget was a clear cause of the loss of confidence, especially given recent gloomy messaging, though firms are also worried about wider global geopolitical issues and economic growth risks.”*

Mixed signals from business barometer

Broader business confidence also took a downwards turn in September, the release of the latest Lloyds Bank Business Barometer revealed last week. Confidence dipped to a three-month low

in September, falling three points to settle at 47%.

Analysts noted, however, that despite dipping, this latest reading is considerably higher than the long-term average of 29%. Furthermore, some 63% of businesses now anticipate stronger output. *“Although overall confidence fell this month, that fall was from a nine-year high and businesses remain positive about their own trading prospects,”* commented Hann-Ju Ho, Senior Economist at Lloyds Bank Commercial Banking.

Deposits rise as rate cuts expected

With rate cuts on the horizon, data from the BoE's latest Money and Credit report showed that households increased their deposits into banks and building societies by £7.3bn in August, well above the £5.9bn recorded a month earlier. An additional £4.4bn was placed into instant access accounts paying interest, while ISAs received deposits worth £4.2bn. Interest rates for savers have been falling since August when the MPC cut Bank Rate for the first time since 2020; the effective interest rate paid on individuals' new deposits fell to 4.37% in August.

Eurozone inflation falls below 2%

Meanwhile in Europe, consumer price inflation fell below 2% for the first time since July 2021, official figures revealed last week. Eurozone inflation dropped to 1.8% in September, piling pressure on the European Central Bank (ECB) to make its third interest rate cut in four months.

Here to help

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