

News in Review

26 February 2025

"Getting more money in people's pockets is my number one mission"

The latest inflation figures released last Wednesday by the Office for National Statistics showed an unexpected surge, with the headline rate climbing to 3% in January from December's 2.5%, marking the highest level in nearly a year. This increase surpassed the Bank of England's (BoE) 2% target and exceeded economists' forecasts of a rise to 2.8%.

ONS attributed this uptick to several factors, including higher transport costs, increased food and non-alcoholic beverage prices, as well as a significant rise in private school fees due to new VAT regulations which resulted in an increase of approximately 13%.

With inflation now notably above the BoE target, the likelihood of imminent interest rate cuts appears to be diminishing, with many market analysts now expecting the BoE will maintain Bank Rate at its current level in its upcoming 20 March meeting, though two rate reductions are still anticipated later in the year. Despite the headline inflation figure, some underlying indicators provided a slightly more optimistic outlook. Services inflation, influenced by wage growth, increased to 5%, which was below the projected 5.2%. Core inflation, excluding volatile food and energy sectors, rose as expected to 3.7% from December's 3.2%.

In response to these developments, Chancellor Rachel Reeves acknowledged the challenges posed by the current economic landscape saying, *"Getting more money in people's pockets is my number one mission. Since the election, we've seen year-on-year wages after inflation growing at their fastest rate—worth an extra £1,000*



a year on average—but I know that millions of families are still struggling to make ends meet. That's why we're going further and faster to deliver economic growth. By taking on the blockers to get Britain building again, investing to rebuild our roads, rail and energy infrastructure and ripping up unnecessary regulation, we will kickstart growth, secure well-paid jobs and get more pounds in pockets."

UK economy shows limited growth

UK private sector output showed only a marginal rise in February, according to the latest S&P Global Flash UK PMI Composite Output Index which dipped slightly to 50.5 from January's 50.6. This marks the slowest pace of growth in two months, with services providing some relief while manufacturing output continued to decline. The Flash UK Services PMI Business Activity Index rose to 51.1, a two-month high, while the Flash UK Manufacturing PMI dropped sharply to 46.4, the lowest in 14 months.

Retail sales bounce back

According to figures released by ONS on Friday, UK retail sales volumes rose by 1.7% in January compared to the previous month, marking the first increase since August 2024 and surpassing analysts' expectations of a 0.3% rise. This growth was primarily driven by a 5.6% surge in food store sales, with more demand from consumers for home-cooked meals. Non-store retailers, including online platforms and market stalls, also experienced a 2.4% increase following a decline in December. However, non-food retailers, such as clothing stores, saw a 1.3% decrease in sales.

UK manufacturing slumps but optimism grows for recovery

In the quarter leading up to February 2025, UK manufacturing output volumes declined at a rate consistent with the previous three months, as reported by the Confederation of British Industry (CBI). This downturn affected 16 out of 17 sub-sectors, notably glass & ceramics, building materials and metal manufacturing. Despite this, manufacturers anticipate a modest 8% increase in output over the next three months, a significant improvement from the -19% forecast in January. Total order books saw a slight improvement, moving from -34% in January to -28% in February, yet they remain below the long-term average of -13%. Export orders remained relatively unchanged and below average. CBI's Lead Economist, Ben Jones commented, *"We know much of the innovation and investment necessary to drive economic growth will come from firms across the UK. Tentative signs of optimism in our survey suggest that companies are poised to work with the government to create the right environment for expansion."*

Energy bills to rise

Energy regulator Ofgem announced that the new cap in April will push prices up by 6.4%, meaning a household using a typical amount of gas and electricity will see their annual bill rise by £111 a year, or £9.25 a month, taking the total bill to £1,849 a year. Analysts had forecast a 5% rise in prices, before Ofgem's announcement on Tuesday.

Here to help

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

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

All details are correct at time of writing (26 February 2025)