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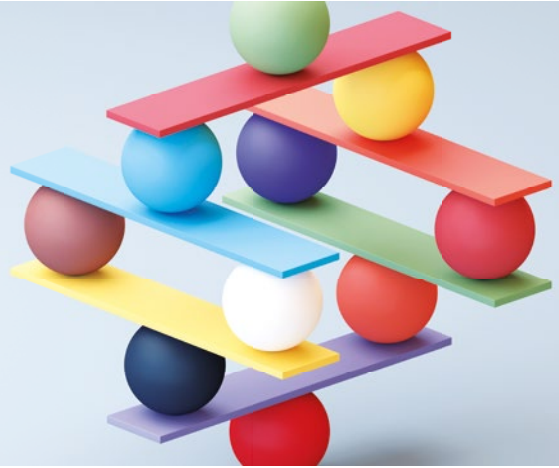
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News in Review

25 September 2024

"Inflation held steady in August as various price fluctuations offset each other"



Last week, the latest UK inflation data for August came in as anticipated at 2.2%, still marginally above the Bank of England's (BoE's) target level of 2%. The rate, published by the Office for National Statistics (ONS), was unchanged from July.

Services inflation, which is an indicator of domestic price pressures, rose sharply to 5.6% from 5.2% in July. A Reuters poll had predicted a smaller rise to 5.5%. One factor behind this increase was a 22.2% jump in air fares between July and August; although a rise is normally expected at that time of year, ONS said the jump was the second largest since records began in 2001.

Chief Economist at ONS, Grant Fitzner, commented, *"Inflation held steady in August as various price fluctuations offset each other... The main movements came from air fares, in particular to European destinations, which showed a large monthly rise, following a fall this time last year. This was offset by lower prices at the pump as well as falling costs at restaurants and hotels."*

Bank Rate held firm

On Thursday, the BoE's Monetary Policy Committee (MPC) voted to retain Bank Rate at 5%, as widely expected. The MPC voted by a majority of 8-1 to maintain Bank Rate, with one committee member favouring a reduction of 0.25 percentage points to 4.75%. BoE Governor, Andrew Bailey, said that cooling inflation pressure will mean the Bank should be able to cut interest rates gradually over the upcoming months, adding, *"it's vital that*

inflation stays low, so we need to be careful not to cut too fast or by too much."

The MPC minutes alluded to a likely rate cut after the Budget in the autumn, stating, *"Bank Rate expectations implied by market pricing... suggest that the next 25 basis point cut would occur in November. That was consistent with the Bank's latest Market Participants Survey (MaPS)."*

Looking ahead, the BoE predicts GDP growth of 0.3% in Q3, with new analysis indicating that the combination of *'improving real incomes, the August Bank Rate reduction and anticipated further cuts in interest rates have underpinned improved sentiment and expectations of increased activity across most sectors around the turn of the year.'* The next MPC meeting will conclude on 7 November.

And in the US...

The Federal Reserve announced a 50-basis point cut to its benchmark interest rate last week. The Central Bank's federal funds rate is now in a range of 4.75% to 5%. This was the first cut in four years and now that inflation is back down to 2.5%, the lowest level for over three years, the Central Bank intends to focus on the ailing labour market. Exchange rates for GBP/USD hit a fresh two year high after the announcement.

Following the rate cut, Fed Chair Jerome Powell said the labour market and the economy are in *"solid shape"* and after making the larger than expected interest rate cut, he said, *"our intention is to keep*

it there." The decision will have an impact all around the world for nations and companies whose debts are priced in dollars.

Government borrowing highest since pandemic

Government borrowing in August rose to the highest level for the month since the pandemic in 2021. ONS data, released on Friday, showed that borrowing – the difference between spending and tax revenue – reached £13.7bn in August, which is £3.3bn more than in August last year.

"No return to austerity"

At the Labour Party conference on Monday, Chancellor Rachel Reeves delivered a speech, lasting for around 45 minutes, in which she criticised the so-called *"black hole"* she inherited from the Tories. She called Labour the *"party of economic responsibility"* as she promised not to take risks with taxpayers' money, adding *"Because I know how much damage has been done in those years [...] there will be no return to austerity."*

Repeating the line *"that's the Britain we're building"*, Reeves promised an end to easy answers and said Labour will always stand with working people, saying *"We do not have to choose between a fair society and a strong economy."*

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 (25 September 2024)***