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News in Review

7 February 2024

"Things are moving in the right direction"

Last week, during their first meeting of 2024, the Bank of England's (BoE's) Monetary Policy Committee (MPC) voted to retain Bank Rate at 5.25% by a majority of six to three. Two members of the committee preferred to increase the rate by 0.25 percentage points, to 5.5%, with one member voting to reduce the rate to 5%.

A Reuters poll of economists had predicted just one policymaker would vote for a rate rise, with a minority expecting another policymaker might vote to cut rates.

BoE Governor Andrew Bailey commented on the outcome, *"The level of Bank Rate remains appropriate. Any decision to change Bank Rate will depend on how the evidence evolves… we must get inflation back to the 2% target sustainably and we will do that."* He added, *"We've had some good news over the past few months. Inflation has fallen a long way from 10% a year ago to 4% now. Things are moving in the right direction."*

From an inflation perspective, the MPC's February summary outlines that Consumer Prices Index (CPI) inflation is projected to fall temporarily to the 2% target in Q2 before increasing again in Q3 and Q4, with the MPC's modal projection implying CPI inflation will be *'around 2.75% by the end of this year.'* Looking further ahead, the report states that, *'CPI inflation is projected to be 2.3% in two years' time and 1.9% in three years.'*

On the dynamic with rates and inflation, Bailey said, *"We have to be more confident that inflation will fall all the way back to the 2% target and stay there, and we're not yet at a point where we can lower interest rates. Inflation has come down faster than we thought it would and that's good news. We need to sustain that, but consistent with that good news we have removed the, what you might call bias we had before, which is that we thought the next move might be up more likely than down, and that's gone."*

The next MPC meeting will conclude on 21 March 2024.

And in the US…

Last week, the US Federal Reserve held its key interest rate steady, with the Federal Open Market Committee voting to retain the benchmark borrowing rate in a targeted range between 5.25% – 5.5%, in line with economists' expectations. This was the fourth consecutive meeting with no change to borrowing costs. Speculation is rife regarding the extent and timing of potential rate cuts Stateside this year.

Fed Chairman Jerome Powell cautioned, *"Inflation is still too high. Ongoing progress in bringing it down is not assured."* He added that rate cuts would be implemented once the Fed was secure that inflation will continue to decline. He confirmed, *"I don't think it's likely the committee will reach a level of confidence by the time of the March meeting to lower rates, but that's to be seen."*

House price news

The recently released Nationwide House Price Index has revealed that UK house prices rose by 0.7% month-on-month in January. The data reveals that the average house price on a non-seasonally adjusted basis was £257,656 last month, up from £257,443 in December. Annually, house prices were down by just -0.2%, an improvement from -1.8% previously and the strongest outturn since January 2023.

Retail sales disappointing

Latest retail sales data from the British Retail Consortium (BRC) shows little joy for the UK's high streets. Its latest figures, compiled from 31 December to 27 January, show footfall continuing its *'downward trajectory'*. Total national footfall was -2.8% year-on-year in January, up from -5% in December, while the high street saw footfall dip by -2.3% on the year, up from December's -4.2%. Helen Dickinson, BRC Chief Executive said bargain hunters were active during the January sales in the first half of last month, but *"the latter part of January saw fewer shoppers out as stormy weather led to a bigger footfall decline in shopping centres and high streets."*

Here to help

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