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News in Review

7 August 2024

"Inflationary pressures have eased enough that we've been able to cut interest rates"



Last week, the Bank of England's (BoE's) Monetary Policy Committee (MPC) voted by a narrow majority of 5 - 4 to reduce Bank Rate by 0.25%, to 5%. Four committee members expressed a preference to maintain it at 5.25%.

This is the first drop since March 2020. The rate had been held at 5.25% since August 2023 in an attempt to tackle rising prices across the UK.

Commenting on the decision to lower rates, BoE Governor, Andrew Bailey said, *"Inflationary pressures have eased enough that we've been able to cut interest rates today"* but he went on to caution that policymakers need *"to make sure inflation stays low and be careful not to cut interest rates too quickly or by too much"*.

The MPC minutes stated, *"inflation is expected to increase to around 2.75% in the second half of this year, as declines in energy prices last year fell out of the annual comparison, revealing more clearly the prevailing persistence of domestic inflationary pressures."* The Committee also confirmed that monetary policy will need to remain restrictive for long enough to dissipate any risks preventing inflation from returning sustainably to the 2% target.

Looking ahead, the next MPC meeting will conclude on 19 September.

Business confidence boost

Overall business confidence in the UK rose significantly last month, according to the latest Business Barometer, released last Wednesday by Lloyds. With a

nine-point increase in July, business confidence equalled its highest level in eight years. After reversing the drop recorded in June, confidence levels returned to 50%, the same as the figure in May.

Analysts suggest that July's strong showing resulted from a combination of improved economic optimism and better trading prospects. On the first point, more than six in 10 respondents felt more positively about the economy in July, up from 55% in June. In contrast, just 17% felt more negatively. Likewise, 62% of businesses reported stronger activity in July. This represented a significant jump from the level in June (53%). Only 6% predicted weaker trading prospects (9% in June).

The optimistic outlook will likely be good news for employment figures too. Staffing expectations also rose healthily in July – more than half of businesses surveyed now plan to expand their workforce, compared to just 14% who expect to reduce staffing. The resulting net balance is the joint highest since March 2017.

House price news

Nationwide's latest house price index, released last week, showed strength in the UK housing market, with mortgage activity seen to be continuing at a *'respectable pace'*. House prices rose by 0.3% month on month in July, the figures revealed. Meanwhile, the annual growth rate picked up to 2.1%, from 1.5% in June, making it the fastest pace of growth since December 2022.

Commenting on the release, Robert Gardner, Chief Economist at Nationwide said, *"UK house prices increased by 0.3% month on month in July, after taking account of seasonal effects. However, prices are still around 2.8% below the all-time highs recorded in the summer of 2022."* He added, *"Housing market activity has been holding relatively steady in recent months with the number of mortgages approved for house purchase at around 60,000 per month. While this is still around 10% below the level prevailing before the pandemic struck, it is still a respectable pace given the higher interest rate environment."*

Summer's arrival boosts clothing and beauty

Latest data from the British Retail Consortium (BRC) has highlighted UK retail sales in the UK rose by 0.5% in July 2024 from a year ago. The growth was supported largely by consumers' purchases of clothing and beauty products in preparation for the holidays. In the three months to July, food sales were up 2.6% year-on-year, while sales of non-food items declined by 1.7%. Helen Dickinson, Chief Executive at the BRC, said, *"The late arrival of British sunshine led to a better month for summer clothing and health and beauty products as shoppers prepared for days out with friends and holidays away."*

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 (7 August 2024)***