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News in Review

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"Businesses are feeling increasingly confident about the economy"

The recently released Lloyds Bank's Business Barometer has revealed that during April overall business confidence was consistent at 42%. The confidence recording remains considerably higher than the Barometer's long-term average of 28%. In the last year, only the reading in January 2024 has seen businesses reporting higher levels of confidence (44%).

In April, the economic optimism reading reached its highest level in over two years (39%), and the majority of businesses continued to be positive about their own trading prospects, with over half (55%) of firms surveyed expecting robust output over the forthcoming year.

Senior Economist at Lloyds Bank Commercial Banking, Hann-Ju Ho, commented on the findings, *"We are beginning to see a consistent trend emerge from our Barometer results in recent months. Businesses are feeling increasingly confident about the economy, coinciding with falling inflation and hopes that interest rates will start to fall this year."*

Slowdown in annual house price growth

The newly released Nationwide House Price Index has highlighted a slowing in annual house price growth. UK house prices dropped by 0.4% in April, falling for the second consecutive month and against market expectations of a 0.2% rise. The average house price in the UK was £261,962 in April.

The annual rate showed a slowing from 1.6% in March to 0.6% in April. Although tempering, the April year-on-year growth was the third consecutive monthly increase, despite being the softest pace in the three-month sequence. This softening in growth can be attributed to a range of factors including ongoing affordability challenges, compounded by a recent rise in longer-term interest rates.

Robert Gardner, Nationwide's Chief Economist, commented on the data set, saying the slowing in the annual rate, *"reflects ongoing affordability pressures, with longer-term interest rates rising in recent months, reversing the steep fall seen around the turn of the year. House prices are now around 4% below the all-time highs recorded in the summer of 2022, after taking account of seasonal effects."*

An unfolding recovery

The latest Economic Outlook from The Organization for Economic Cooperation and Development (OECD), entitled *'An unfolding recovery,'* has highlighted global growth expectations of 3.1% this year, and 3.2% in 2025. This follows growth of 3.1% last year. Although, as the report deduces, this growth rate remains *'modest,'* it also suggests that the global outlook has started to *'brighten'* as global activity proves *'relatively resilient.'*

With inflation falling faster than initially projected in many regions due to a combination of restrictive monetary policy, lower energy prices, an easing in supply chain pressures and a sharp reduction in food prices, pressure has still come from service price inflation, which has been more stubborn to recede, and has remained *'well above pre-pandemic averages in most countries.'*

There is an uptick in private sector confidence and with unemployment at or very close to record lows in many regions, household incomes have started to look more positive as inflation moderates and trade growth progresses.

From a country perspective, divergence remains a theme, as advanced economies experience softer outcomes, particularly in the Euro Area; this is *'offset by strong growth'* in several emerging market economies and in North America.

But the UK trails…

OECD data for the UK shows expectations of *'sluggish'* 0.4% economic growth this year, downgraded from their previous prediction of 0.7%, this is followed by growth of 1% in 2025. Next year's predicted growth comes in below all other G7 nations, comprising Japan, Germany, France, Canada, Italy and the US. This lacklustre growth level has been attributed to the after-effects of a number of Bank Rate rises, cautioning that people may be put off from investing due to uncertainty surrounding the next interest rate move.

MPC decision

Concluding on Thursday, we await the outcome of the next Monetary Policy Committee (MPC) meeting. With data showing the economy is emerging from a recession and the Federal Reserve pushing back on when it might cut rates this year, Reuters recently reported that, *'financial markets are now only fully pricing in a first Bank of England (BoE) rate cut in September and the chances of a second move by the end of the year are seen as little more than 50-50. That is a far cry from the six reductions in 2024 that investors were pricing in at the start of this year.'*

Here to help

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