



# CHN

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## News in Review

24 January 2024

*"Inflation may give us a slightly bumpy ride during the next couple of months"*



**Last week, data from the Office for National Statistics (ONS) showed the UK's annual inflation rate, as measured by the Consumer Prices Index (CPI) increased by 4% in the year to December. An unexpected uptick from the 3.9% reading in November, it contrasts with expectations of a modest decline to 3.8% in a Reuters poll of economists.**

The first increase in CPI since February 2023, main upward contributors were a sharp rise in tobacco duty and alcohol, rising by 12.8% in the year to December, versus a rise of 10.2% in November. The upward blip was partly driven by increases in tobacco duty announced in the Autumn Statement.

Director of Policy at the Institute of Directors, Dr. Roger Barker, commented on the inflation news, *"After nine straight months of monthly declines, December's increase in the headline inflation rate was an unwelcome surprise... Inflation may give us a slightly bumpy ride during the next couple of months. Next month's figure will have to incorporate a 5% rise in the Ofgem utility price cap from 1st January and could also therefore tick upwards."*

He continued, *"Inflation in the economy is still broadly moving in the right direction... We still believe that the Bank of England should consider a cut to interest rates sooner rather than later in order to provide a boost to depressed levels of business confidence."*

With Bank Rate currently standing at 5.25% and the longer-term target for inflation at 2%, there is some uncertainty

over when the Bank of England will reduce interest rates this year. The next Monetary Policy Committee (MPC) meeting is due to be held in early February.

### **US and Eurozone increases too**

The December rise in CPI follows increases also seen in the US and Eurozone. However, unlike earlier in 2023, UK inflation is no longer considerably higher than other advanced economies. Eurozone inflation unexpectedly rose to 2.9% in December from 2.4% the previous month, driven by an increase in energy costs. According to the Bureau of Labor Statistics in the US, headline CPI increased at an annual pace of 3.4% in December, rising from the 3.1% recorded in November. Surpassing expectations of around 3.2%, housing costs were cited as a key driver in pushing the reading higher.

### **Christmas consumer spending impacts retail**

New data released by ONS on Friday highlighted that UK retail volumes reduced by 3.2% in December, with shoppers cutting back on Christmas spending. Although the monthly fall in December was considerably worse than a 0.5% decline estimated, it does follow growth of 1.4% in November when consumers took advantage of Black Friday sales. From a quarterly perspective, this means that sales volumes fell by 0.9% in Q4 2023 and have now reduced for consecutive quarters.

Deputy Director for Surveys and Economic Indicators at the ONS, Heather Bovill, elaborated, *"Food stores performed very poorly, with their steepest fall since May*

*2021, as early Christmas shopping led to slow December sales. Department stores, clothing shops and household goods retailers reported sluggish sales too as consumers spent less on Christmas gifts, but had also purchased earlier during Black Friday promotions, to help spread the cost."*

She concluded, *"The longer-term picture remains subdued, with quarterly sales dipping, while annual sales volumes fell for the second consecutive year, to their lowest level in five years."*

### **Davos World Economic Forum 2024**

Business leaders had their annual meeting in the Swiss Alpine village of Davos last week, which saw global Prime Ministers, Presidents, leaders of central banks and CEOs from various industries gather to discuss outlooks for the year ahead. Talks circled around many themes including supply chains, global conflicts, taxation, investment and the geopolitical landscape.

Chancellor Jeremy Hunt attended, and with the Spring Budget on 6 March just in sight, he touched on the topic of lower taxation, saying that the current *"direction of travel"* indicates that economies which are growing faster than the UK, such as Asia and North America, tend to have lower taxes. He continued, *"I believe fundamentally that low-tax economies are more dynamic, more competitive and generate more money for public services like the NHS."*

### **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 (24 January 2024)***