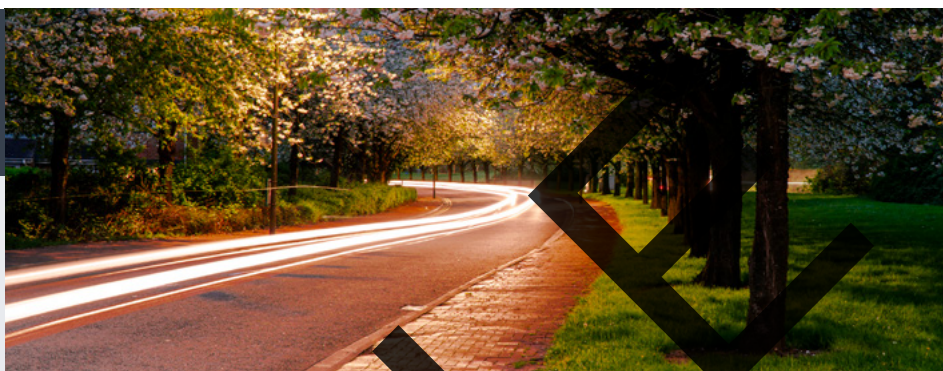


# News in Review

31 May 2023

*"The return to single digit inflation suggests the UK has turned a corner"*



**Official data released by the Office for National Statistics (ONS) last week revealed that inflation returned to single digits in April, following seven consecutive months residing above 10%. The Consumer Prices Index (CPI) increased by 8.7% in the 12-month period to April, down from 10.1% in March.**

Driven by a drop in energy and gas prices, the fall in inflation was not as large as expected, with a Reuters poll of economists anticipating annual CPI of 8.2% to the end of April, while the Bank of England forecast stated 8.4%.

Although annual food inflation dipped for a second consecutive month, it remained robust at 19.1% in April, compared to 19.2% the previous month, while service inflation saw a 1.6% rise month-on-month.

Economies Director at the Institute of Chartered Accountants in England and Wales (ICAEW) Suren Thiru responded to the latest inflation statistics, *"While still staggering, the return to single digit inflation suggests the UK has turned a corner in its fight against soaring prices after lower energy bills pulled down the headline rate."*

Mr Thiru continued, *"This will be the first of the big falls in inflation this year, with the headline rate set to fall sharply over the summer once the expected reduction in Ofgem's energy price cap drives down energy bills from July."*

## **IMF expectations for the UK economy shift**

The inflation figures came hot on the heels of a statement from the

International Monetary Fund (IMF) in which it outlined that the UK would no longer be entering recession in 2023. Instead, the IMF expects the UK to experience growth of 0.4% in the year, contrary to the previous month's forecast of a 0.3% annual contraction. Kristalina Georgieva, the IMF's Managing Director, praised the government for taking *"decisive and responsible steps in recent months,"* to stabilise the economy and fight inflation. The report noted that monetary policy will need to remain tight to keep inflation expectations *'well-anchored.'* With IMF growth prospects for the UK stronger than Italy, Germany and France, Chancellor Jeremy Hunt said the report *"credits our action to restore stability and tame inflation."*

## **Mortgage rates on the rise**

Various mortgage lenders increased the rates of new deals at the tail end of last week, following release of the higher-than-expected inflation figures. Nationwide, one of Britain's largest building societies, was one such lender, increasing rates on new fixed rate borrowing by up to 0.45 percentage points. A Nationwide spokesperson said of the increase, *"In the current economic environment... this will ensure our mortgage rates remain sustainable."* Other major lenders such as Halifax and Santander also upped their rates last week. In addition to product rate increases, fewer mortgages are on the market, with some lenders choosing to withdraw products.

## **Retail volumes expected to stabilise in June**

Retail sales volumes fell in May compared with the same period last year, while staffing levels dropped sharply, the recent Confederation of British Industry's (CBI) Distributive Trades Survey has found. Volumes fell to a balance of -10% in May from +5% in April. Stores surveyed are expecting sales volumes to stabilise in June as consumer confidence picks up and energy prices reduce. Principal Economist at the CBI, Martin Sartorius said retailers had reason to be optimistic about the outlook, *"Consumer sentiment has been improving and households' energy bills are set to decline from July... The resulting boost to incomes should help support retail sales going into in the second half of this year."*

Other key findings from the survey highlighted that internet sales fell in the year to May. Online volumes are also expected to reduce at a similarly moderate pace in June. Focusing on price growth in the year to May, it remained at a near multi-decade high in May, with prices expected to continue to increase at this rapid pace. In the year to May, retail sector employment fell for the third consecutive quarter running and at the fastest pace since February 2009. Retailers are expecting headcount to continue to contract going forward.

## **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 (31 May 2023)***