TOMD in partnership with

MyMarketing

Studio F202, Weston House, Allen House Business Centre, The Maltings Station Road, Sawbridgeworth Hertfordshire, CM21 9FP

Tel 01279 657555
Email info@tomd.co.uk
Web www.mymarketingstore.co.uk

News in Review

22 December 2021

"We're concerned about inflation in the medium term"

Last week the Bank of England (BoE) became the first major central bank to raise interest rates since the onset of the pandemic. At a meeting ending on 16 December, the Bank's nine-member Monetary Policy Committee voted by an 8-1 majority to raise rates to 0.25%, an increase of 0.15 percentage points. Speaking after announcing the decision, BoE Governor Andrew Bailey said, *"We're concerned about inflation in the medium term and we're seeing things now that can threaten that."*

Inflation surges to 10-year high

The rate hike came a day after the Office for National Statistics (ONS) revealed inflation is now rising at its fastest rate for 10 years. In the 12 months to November, the cost of living rose by 5.1%, up from 4.2% the previous month and above all forecasts in a Reuters poll of economists. ONS said price pressures were broad based, with the largest upward contributions coming from motor fuels, clothing and footwear.

The BoE said it now expects inflation to peak at around 6% next April – three times higher than its target – before falling back in the second half of next year. The Bank also said that more '*modest tightening of monetary policy over the forecast period is likely to be necessary*' in order to meet its 2% inflation target.

Fed to cut support more quickly

US Federal Reserve officials also signalled their intent to ratchet up the response to rising inflation. Last Wednesday, following its latest two-day policy meeting, the Fed said it would speed up plans to withdraw support for the economy, suggesting its stimulus programme will end by March. At a news conference, Fed Chair Jerome Powell said, *"The economy no longer needs increasing amounts of policy support."* This opens the door to interest rate rises next year, with the Fed's 'dot plot' of policymakers' forecasts pointing to three quarter percentage-point hikes by the end of 2022.

Omicron hits private sector growth

A closely-watched survey released last Thursday has highlighted the economic impact being wreaked by the Omicron variant. The preliminary reading of the IHS Markit/CIPS Composite Purchasing Managers' Index (PMI) fell to a 10-month low of 53.2 in December. While any value over 50 still represents expansion, the latest figure was significantly lower than November's final reading of 57.8. IHS Markit Chief Business Economist Chris Williamson said, *"The flash PMI data show the UK economy being hit once again by COVID-19, with growth slowing sharply at the end of the year led by a steep drop in spending on services by households."*

Manufacturing activity strengthens

The latest monthly CBI Industrial Trends Survey, published on Monday, suggests Omicron has so far had less impact on manufacturers, with manufacturing output growth in the quarter to December accelerating at its fastest pace since July. The survey did, however, report a further deterioration in inventory positions and CBI Deputy Chief Economist Anna Leach said, *"behind the scenes, firms are battling pressures on a number of fronts"* and added, *"The spread of the Omicron variant will have been a blow to business confidence."*

Retailer highs and woes

ONS data released last Friday revealed stronger than expected growth in retail sales last month. In total, sales volumes rose by 1.4% in November, with consumers taking advantage of Black Friday sales to begin their Christmas shopping early. ONS said that clothing stores, as well as computer, toy and jewellery retailers all reported robust sales figures.

Data from the CBI's latest Distributive Trades Survey published on Tuesday, however, suggests sales growth fell sharply in the first half of this month. CBI Principal Economist Ben Jones commented, *"Our December survey confirms what we've been hearing anecdotally about Omicron's chilling impact on activity on the High Street, with retail sales growth slowing and expectations for the coming month sharply downgraded."*

Chancellor announces business support

Public sector finance statistics, also released on Tuesday, showed government borrowing almost halved in the first eight months of the current fiscal year compared with year earlier levels. The same day, Chancellor Rishi Sunak unveiled a fresh package of support for struggling hospitality and leisure businesses hit by a collapse in bookings due to rising COVID cases.

Here to help

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