

## Quilter Economic review

January 2025 – review of December 🕒 6 minute read

*Our monthly economic review is intended to provide background to recent developments in investment markets as well as to give an indication of how some key issues could impact in the future.*

*It is not intended that individual investment decisions should be taken based on this information; we are always ready to discuss your individual requirements. We hope you will find this review to be of interest.*

### Headline inflation at eight-month high

*Release of the latest inflation statistics showed consumer prices are now rising at their fastest rate since March 2024, while last month also saw Bank of England (BoE) policymakers become more divided over the need to cut interest rates.*

Data published by the Office for National Statistics (ONS) showed the Consumer Prices Index (CPI) 12-month rate – which compares prices in the current month with the same period a year earlier – rose from 2.3% in October to 2.6% in November. ONS said the rise was primarily driven by an increase in motor fuel and clothing prices, which was only partially offset by a drop in air fares.

November's CPI rise was, though, in line with expectations expressed in a Reuters poll of economists. Additionally, there was some relief in relation to underlying price pressures, with services inflation – a measure closely monitored by the BoE – remaining unchanged at 5.0%.

The latest decision of the BoE's interest-rate setting body was announced a day after the inflation release, with the nine-member Monetary Policy Committee (MPC) voting by

a 6-3 majority to maintain Bank Rate at 4.75%. The three dissenting voices each preferred an immediate 0.25 percentage point reduction in order to boost growth, but the six-strong majority, which included BoE Governor Andrew Bailey, expressed concern about wage growth and 'inflation persistence.'

Commenting after announcing the Committee's decision, Mr Bailey said he still believed the path for interest rates was "downwards." However, he added, "We think a gradual approach to future interest rate cuts remains right, but with the heightened uncertainty in the economy we can't commit to when or by how much we will cut rates in the coming year."

The next MPC meeting is scheduled for early next month, with the outcome of the Committee's deliberations due to be announced on 6 February.

### UK economy has 'largely stalled'

*Figures released last month by ONS showed the UK economy shrank for a second successive month in October, while more recent survey evidence suggests it remained 'largely stalled' as 2024 drew to an end.*

The latest official monthly gross domestic product (GDP) statistics revealed that economic output declined by 0.1% in October, defying analysts' expectations for a small monthly expansion. October's decline followed a similar-sized contraction in September and represents the first consecutive monthly drop in GDP since March and April 2020.

Revised data subsequently released by ONS also revealed that the economy performed worse than previously thought during earlier parts of last year. The updated statistics showed a growth rate of 0.4% across the second quarter, down from a previously published figure of 0.5%, while the economy is now estimated to have produced zero growth in the third quarter of 2024, down from an initial estimate of 0.1%.

The current economic malaise was also highlighted in updated growth projections published last month by the BoE. The Bank now estimates the UK will have seen no growth during the final three months of 2024.

Preliminary data from the latest S&P Global/CIPS UK Purchasing Managers' Index (PMI) also points to a loss of economic momentum. While December's flash headline growth indicator did remain at November's 50.5 level, this left the Index only marginally above the 50.0 no change threshold.

S&P Global Market Intelligence's Chief Business Economist Chris Williamson said, "The flash PMI data for December indicate the UK economy remained largely stalled at the end of 2024. New orders fell in December for the first time in over a year, reflecting a deterioration in demand as a deepening downturn in manufacturing shows growing signs of spreading to the services economy."

## Retail sales post small November rise

*Official retail sales data released last month showed a small rise in sales volumes during November, although more recent survey evidence continues to show a tough retail environment despite another modest rise in consumer sentiment.*

Figures released last month by ONS revealed that retail sales volumes rose by 0.2% in November. While this did represent a bounce back from October's 0.7% decline, the figure was below economists' expectations and left sales in the three months to November up by only 0.3%, the weakest performance according to this measure since the three months to June 2024.

Evidence from the recently released CBI Distributive Trades Survey also suggests retailers had a relatively weak run-up to Christmas. The CBI said retailers had 'endured a gloomy festive period' and looking ahead, they expected 'sales to fall again in January' with wholesalers and motor traders 'braced for sharper sales declines.'

Data from GfK's latest consumer confidence index, however, did offer the retail sector some hope for the new year, with the long-running survey showing households becoming modestly more cheery about their finances for the year ahead. Overall, December's headline sentiment figure rose to -17 from -18 in November, lifting consumer morale to a four-month high.

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## Wage growth surprise: vacancies fall again

*The latest batch of labour market statistics revealed a surprise pick-up in pay growth as well as a fall in both the level of job vacancies and the number of staff on payrolls.*

According to the latest ONS data, average weekly earnings excluding bonuses rose at an annual rate of 5.2% in the three months to October 2024; this was up from 4.9% across the preceding three-month period and higher than a consensus forecast of 5.0% from a Reuters poll of economists. ONS Director of Statistics Liz McKeown commented, "After slowing steadily for over a year, growth in pay excluding bonuses increased slightly in the latest period driven by stronger growth in private sector pay."

Job vacancies, however, fell once again, with 31,000 fewer reported in the September–November period compared to the previous three months. The latest release also revealed a drop in the number of people on payrolls, with provisional data indicating a 35,000 decline in November.

Last month, Reed Chief Executive Officer, James Reed, also noted that his firm had seen a "significant decline" in the number of jobs being advertised, while a number of surveys highlighted a slowdown in recruitment activity in the face of rising employers' National Insurance Contributions.

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All details are correct at the time of writing (2 January 2025)

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