Ahead of the Bank of England’s crucial interest rate decision this week, several surveys point to sustained inflationary pressures. Not surprisingly many believe the BoE will be hot on the heels of the Federal Reserve and ECB, raising Bank Rate again, but perhaps for the last time.

Worries and Withdrawals. The rundown on pandemic-era savings continues, but now it’s no longer just about the cost of living crisis and its squeeze on real incomes. UK households withdrew a record £4.8bn from banks in March, with most of the money flowing into fully insured National Savings and Investment accounts. But they are not alone in the search for safety. Businesses too appear to have been seeking out higher yielding alternatives elsewhere. March saw the most acute phase of recent global banking turmoil. So perhaps that particular element has already subsided. But with inflation still high, and rates remaining elevated, the other drivers putting downward pressure on depostis remain in place for now.

Out, damned spot, out! Will these inflationary pressures never be gone? Like Lady Macbeth’s difficulties expunging blood from her conscience, business intelligence suggests the return to price stability could be a drawn-out affair. UK firms hiked prices by an average of 7.5% in the year to April, down a meagre0.3ppts on last month. In the year ahead, companies foresee their prices climbing another 5.9% (slightly faster than previously anticipated) and CPI increasing by 5.6%. Perhaps unsurprising given that cost pressures remain acute: wages are expected to rise another 5.4% next year. Was Lady M right that “what’s done cannot be undone”?

Modesty rules. Summer may be delayed but further signs of a modest warming for UK’s businesses should cheer us up. Their ability to source materials is stable, with two-thirds reporting no difficulties. Firms are also a little less concerned than they were a few weeks ago (7 in 10 vs. 72% in April). True, that’s a low bar and worries continue to centre on energy prices and inflation. Yet the share of firms experiencing labour shortages rose a little to almost a third (31%, up 2ppts from March). With inflation too sticky for comfort, a modest recovery is probably the sweet spot.

Go vegan? Ever wondered what items are experiencing the fastest rate of inflation? Well, if you are a dairy lover, like Caesar salad or are a parent of a young child, last year would have been hard for you. Prices for most categories of cheese and milk (30%+), olive oil (49%), and some of the infant and children clothing (20%+) topped their respective categories for annual inflation in March. Given that, it isn’t surprising to see that 93% of UK citizens worry about the cost of living, followed by NHS (87%) and the economy (73%). Interestingly, the most deprived are not the most worried about the cost of living. But with tapering government support, things may change soon.

Improving. The sharp increase in household energy costs has focused attention on energy (in)efficiency of the UK housing stock. Energy performance is summarised in Energy

Efficiency Certificate (EPC) score. Since 2012 the percentage of existing dwellings with walls rated "average" or above has increased in all English regions and Wales, while the percentage of existing houses with a roof rating of "good" or "very good" has increased in all regions except London. And age matters. Dwellings built since 2012 have the highest rating of wall and roof insulation, while those built before 1930 have the lowest. Energy efficiency remains better in social-rented dwellings than in owner-occupied or private-rented dwellings.

Carrying on regardless. The US Federal Reserve put rates up to 5.25% last week, extending its run of tightening monetary policy. Solid economic growth and generally positive labour market data convinced the committee that another hike was needed to cool demand, but removed its previous stance of expecting further rate rises. So far so uncontroversial. More unusual, however, was the need for the central bank to reassure people that the US banking system was safe after another tumultuous week for regional banks. The dampening effects of that backdrop could prove to be more impactful than a tweak to the policy rate. And markets are fairly convinced the next move from the Fed will be down, and before the year is out.

Breaking fever. Inflation in the Eurozone nudged up 7%y/y in Apr, from 6.9% in Mar, as energy inflation rebounded to 2.5%, from -0.7%. But this was due to shift in base effects from last year's wild moves following Russia's invasion of Ukraine. The underlying trend is down, with signs of disinflation emerging in 3/4 major components – energy, food and core goods. Services aren't budging, yet. Core inflation should ease further this month, before ticking up in June as base effects from last year's temporarily reduced rail fares in Germany kick in.

Downshift. Still, the inflation data sealed the deal for the ECB to deliver a quarter-point rate increase last week, the smallest since it began its hiking cycle in July last year. The

deposit rate now stands at 3.25% while the refinancing rate is at 3.75%, both matching the consensus. Monetary policy is still being tightened in the Eurozone to rein in inflation, which in the ECB’s view is still on track “to be too high for too long”. But is the end of tightening in sight? Well, the ECB stated that it will stick to its guns and take the data-dependent approach for its future rate decisions. Markets are pricing in one further hike, at least.

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