JESSICA O'CONNOR · FEATURED NEWS · 19/07/2023

"This news will be a great relief to all" – Industry reaction to ONS Inflation figures

Inflation figures have hit their lowest level in several months, following highs of 11.1% in October 2022, according to latest figures.

In an announcement released this morning, the Office for National Statistics (ONS) confirmed that UK inflation fell to 7.9% for the month of June.

This marks a substantial decline of 0.8%, which saw figures remain steady at 8.7% in May.

In light of these figures, industry experts have been sharing their reactions to the news, and have been speculating as to what this may mean for the market going forward.

Reaction:

Ben Thompson, deputy CEO, Mortgage Advice Bureau:

"Although headline inflation has slowed more than expected, core inflation is still proving sticky and will remain on the minds of policymakers.

"Lenders have held steady on rates over the past few days, adopting a 'wait and see' approach. However, the core inflation reading is likely to signal the start of another choppy period, as lenders predict the Bank of England's next move – a toss-up between a quarter or half point rise.

"The big question for mortgage holders is what they should do next, and with so much speculation on where we are on rates, it's a hard one to answer. It's important not to bury your head in the sand and to act early, so if you are within six months of your deal ending, now is the time to speak to your mortgage broker and see what your options are."

Nathan Emerson, CEO of Propertymark Propertymark:

"As core inflation remains sticky, it is increasingly likely that the Bank of England will consider further interest rate rises. This has obvious impacts on mortgage holders, new and old. However, we are seeing a good amount of resilience in the market and serious buyers will continue to make a gain on the price achieved whilst sellers find a happy medium when negotiating the final agreed sale price."

Paul McGerrigan, CEO at fintech broker Loan.co.uk:

"The inflation rate has again not conformed to City expectations, dropping further than predicted to 7.9% in June, down from 8.7% in May. Downward momentum of this magnitude is highly positive, and this is the metric No.10 uses to measure its target of halving inflation by the end of 2023.

"Strip out the more volatile food, alcohol, tobacco and energy prices however, and we see that core inflation is more stubborn, having moved only 0.2%, at 6.9% down from 7.1% in May. Add in household cost and we see that the CPIH has unsurprisingly barely moved, reducing by 0.1% to 6.4%.

"These figures may divide the MPC when they meet next month, however it's likely rate rises will continue. The BoE has been concerned that spending is not slowing fast enough, and odds are they will continue to maintain the pressure via base rate in at an attempt to caution the public into slowing down discretionary spending, though a quarter per cent increase may be on the cards as opposed to 0.5%. This, they believe, is necessary to drive inflation down.

"Most economists now believe rates will peak at 5.5% and remain stubbornly high until Q3 2024 before any noticeable drop. Borrowers need expert support now more than ever."

Simon Webb, managing director of capital markets and finance at LiveMore:

"Inflation is plodding downwards but it's a painfully slow process reaching 7.9% in June. The main contributory factor is food inflation, which is still massively high at 17.4% although it is lower than the peak of 19.2% in March.

"A slightly more positive statistic is the 0.2% fall in core inflation to 6.9%, which strips out food and energy prices, a welcome turnaround from successive rises over the previous three months. Whether this is enough to stall the Monetary Policy Committee decision to raise base rate yet again is debateable, but there are two members of the MPC who disagree with continual rate rises. The question is, will any of their other colleagues join them?"

Lewis Shaw, founder of Shaw Financial Services:

"This inflation data is excellent news for everyone, mortgage holder or not. Yes, the UK still has one of the highest inflation rates in the G7, and there's still a long way to go, but to see headline CPI fall and, crucially, core inflation reduce, albeit by a smaller margin, is something we've all been hoping for and may suggest we've now turned the corner.

"This should mean the Bank of England only raises rates next month by 0.25%, so for mortgage holders this is great news. I'm going out on a limb here to say fixed mortgage rates have peaked.

"We may see a little shuffling around but the continued painful increases are over.

"That doesn't mean that we're out of the woods because monetary policy takes a long time to show up, however it does mean we can now start to see the faint glimmer of a light at the end of the tunnel.

"House prices are still in the crosshairs and will continue to reduce for now as the market is absolutely a buyers' market and first-time buyers can smell blood."

Jonathan Burridge, founding adviser at We Are Money:

"Let us all remember that one swallow does not a summer make. This news will be a great relief to all, especially the policymakers, but, we need to see more before we can start to make any judgements.

"If this is a trend, then we should start to see some easing of pricing, but let's not get too carried away just

"If this is a trend, then we should start to see some easing of pricing, but let's not get too carried away just yet.

"Inflation is still too high, so the Bank of England's rate policy is unlikely to change and traders have responded ahead of this news, so any adjustment will be slow and incremental."

Gary Boakes, director of Verve Financial:

"This could be the most significant set of inflation data in years.

"For inflation to have fallen further than expectation surely means the pressure is off the Bank of England, but the ball is now in their court.

"Hopefully, we will see a positive impact across markets and reductions in swap rates, which in turn could see a drop in mortgage rates."

Russell Maggs, mortgage adviser at Maggs Financial Services:

"This latest inflation data should provide a significant boost to the housing and mortgage market.

"The rate of inflation should now continue to fall in line with other developed countries and there is an opportunity for home movers and first-time buyers to take advantage of buying now whilst the market is flat-lining before it starts to pick up pace again in the coming months.

"The Bank of England should now hold the 5% base rate until the end of the year to give some stability in the markets.

"However, the days of super-low interest rates are behind us and we need to get used to living in a world of higher monthly mortgage payments.

"We're also likely to see increased options in the market to fix monthly payments for the term of the mortgage as you see in the US and on the Continent."

Stephen Perkins, managing director at Yellow Brick Mortgages:

"Whilst it is very welcome news that inflation has fallen more than analysts had predicted, it should be noted this was mainly due to falling fuel prices.

"Core CPI (excluding energy, food, alcohol and tobacco) is rising 6.9% down from 7.1% in May, meaning many will not feel an easing in the rising cost-of-living and the Government still have plenty to do to achieve their target of halving inflation by the end of the year.

"Hopefully, today's inflation print will be sufficient to hold base rates in the next Bank of England MPC meeting, which would be much appreciated by everyone, especially homeowners."

Riz Malik, director of R3 Mortgages:

"Inflation falling to below 8% is fantastic news. If the 'market' responds positively to this greater-than-anticipated dip, we could witness notable shifts in the mortgage market.

"It is a shame that August's base rate meeting is before the release of August's inflation data, which could set the scene for the rest of 2023.

"This data should take into account the reduction in energy prices that occurred in July. If this leads to another substantial decrease, it could potentially curb aggressive rate hikes for the foreseeable future."

Gary Bush, financial adviser at MortgageShop.com:

"Clearly, it's now time for the Bank of England to rest a little in its next meeting on 3rd August, echoing what the US did recently, which should bring some calm to UK Plc.

"With core inflation also down to 6.9%, we are certainly going in the right direction.

"From the decision in two weeks, we'll see how related to the general public the members of the Monetary Policy Committee are."

Rohit Kohli, director at The Mortgage Stop:

"Today's drop in inflation to 7.9% is a bigger fall than anticipated for the first time in a long while and is a silver lining. However, it's not time to pop the champagne corks just yet.

"We need to keep a close eye on how this feeds into swap rates and the subsequent reactions from lenders. While this news is a breath of fresh air, we're not out of the woods yet.

"Hopefully, it gives Threadneedle Street some pause for thought and we see some stability in interest rates.

"I think this will be welcome news to the property market and businesses alike but external factors, such as the ongoing conflict in Ukraine, could potentially reverse these drops, especially with food inflation remaining high.

"Let's remain cautiously optimistic and continue to navigate these financial waters with cautious optimism.

"It will be intriguing to see whether a fall in swap rates will prompt lenders to reduce their product prices as swiftly and as frequently as they increased them."

Amit Patel, adviser at Trinity Finance:

"Some welcome news just at the start of the school holidays.

"However, will this announcement be enough for the members of the MPC at the Bank of England to pause and reflect before making the sensible and right choice in pausing their agenda of rate hikes? I'm not too sure.

"They must pause with their narrative and bring welcome relief to millions up and down the country before it's too late."

Elliott Culley, director at Switch Mortgage Finance:

"Now the Bank of England have a decision to make. Inflation remains high, but it has dropped more than predictions.

"Swap rates are so volatile right now and recent positive news has led to swap rate rises cooling off.

"What happens next is so important for the housing sector. I think we will still see a rate increase in August, but the Bank of England might start thinking they don't need to go as high as 6.25% by the end of the year as has been predicted.

"This could lead to a reduction in swap rates and ultimately mortgage rates, but we are not out of the woods just yet.

"Ultimately there are signs the rate rises are working, so the hope will be this translates into the decision-making of Andrew Bailey and the committee."

Peter Stamford, director of Moor Mortgages:

"For the sake of millions of homeowners, I sincerely hope that this will mean a pause in the Bank of England's interest rate hikes.

"But I fear they will see this fall as proof their blunt-edged strategy has been working and continue to hike.

"This fall in inflation could have a sting in its tail regarding interest rates."

John Choong, markets and equity analyst at InvestingReviews.co.uk:

"Miracles do happen. For the first time in months, CPI comes in lower than expectations at 7.9%. Core CPI also comes in a touch lower at 6.9%, which should allow lenders and borrowers alike to breathe a sigh of relief.

"That said, champagne bottles shouldn't be popped just yet as the path to 2% remains a treacherous

"That said, champagne bottles shouldn't be popped just yet as the path to 2% remains a treacherous journey, with core CPI still high and sticky.

"The easing figures should allow gilt yields to find some relief in the coming days, with markets now less likely to price in a 7% terminal rate from the Bank of England.

"We may now see mortgage rates start to come down as well. Nonetheless, this will be dependent on whether the next few prints continue to show cooling inflation, especially on the core front.

"With wage pressures also beginning to ease as well, there's now hope that both the housing market and the UK economy can achieve a 'soft landing' without entering a recession."

Jon Maloney, managing director of Wellingborough-based Century Business Finance:

"Finally, some positive news regarding the economy, something that is much needed in the SME world right now. Hopefully, this will give the Bank of England the confidence to halt any further rate increases, which should in turn slowly begin to get things moving again in what has become a very stagnant period for the economy. There's still a long way to go yet but things are moving in the right direction."

Philip Dragoumis, owner of Thera Wealth Management:

"Finally some good news on inflation, or at least better than expectations.

"Expect the pound to come under pressure today and a rally in UK bonds. 6.9% core inflation is still high but at least it's heading in the right direction.

"The Bank of England should pause but won't. Another three months like this and mortgage rates will look very different."

Craig Fish, managing director at Lodestone:

"There is a god, after all. This fall in inflation and core inflation is bigger than expected and it's expected to continue in this direction for the remainder of the year.

"It's to be noted, though, that this has nothing to do with the Bank of England's interest rate increases so I hope that they don't try to take credit for it.

"Because the pain of the rate increases has not yet been felt by most mortgage holders, I sincerely hope that the MPC stop their ridiculous and futile approach to this problem, and ease off with the rate increases now.

"I fear they won't and we may still see an increase or two, but mortgage holders across the UK are all crossing their fingers, toes, arms and legs."

Wes Wilkes, CEO at Net-Worth Ntwrk:

"The move down in both headline and core CPI today, and also coming in under expectations, will be welcomed by markets and provide some relief to borrowers, investors and no doubt the Bank of England, too.

"Prices are still rising by nearly four times the Bank's target so we are certainly not out of the woods by a long stretch but this could mean the start of the end of the vicious rate cycle as the Bank will want to avoid rising rates into a deflationary environment if the trend in inflation shifts aggressively downwards from here. Over to you Mr Bailey."

Mark Grant of The Business Finance Branch:

"Not only did headline UK inflation fall to 7.9%, lower than forecast, but crucially core inflation, stripping out volatile food and energy costs, also fell to 6.9% in June.

"Will this be enough for the Bank of England to hold interest rates at the August 3rd rate-setting meeting? The jury will be out for that.

"Ultimately, this data merely confirms prices are rising at a slower pace, but still rising at a high level year on year for businesses and consumers.

"This better than expected data is welcome but may not be good enough to prevent further interest rate rises and the increased cost of borrowing we have may already have set the economy on a course to recession in the near term.

"Many businesses I suspect will still not be feeling like the worst is over this morning."

Samuel Mather-Holgate of Mather & Murray Financial:

"The amount of this fall may just be the right amount to make the Bank of England change course. It's more than expected and should continue on this trajectory.

"With most mortgage holders not experiencing interest rate rises yet, because they are on fixed rates, it's time for the Bank of England to reverse its strategy and start cutting rates.

"This is unlikely to happen until the end of the year but needs to be soon to stave off a severe recession."

Kevin Brown, savings specialist at Scottish Friendly:

"The good news is that price rises are slowing, but let's not forget they're still rising faster than they have done for the best part of 40 years.

"UK households have had to swallow a huge increase in living costs over the past 18 months and these higher prices are now bedded into the economy.

"Wages have failed to keep pace with rampant inflation and it's leaving consumers facing a financial shortfall. Historically, interest rate rises encourage an increase in saving, but we are now seeing record outflows as people scramble to shore up their finances.

"New figures also reveal outstanding credit card debt rose by nearly 10% in April compared with the previous year. It suggests the gap between people's income and outgoings is widening and that budgeting alone is clearly not enough to make ends meet.

"The Monetary Policy Committee is set to yet again raise interest rates next month and will be desperately hoping it helps to bring down inflation further and more quickly. The longer they both remain high, the greater the long-term repercussions for UK household finances and the UK economy overall."

Andrew Gething, managing director of MorganAsh:

"Following successive shocks, it's positive to see inflation ease beyond expectations to its lowest level in more than a year. The hope is this news may allow mortgage lenders to reduce rates and budge even slightly on their fixed-rate pricing. This will be most welcome among those households set to remortgage in the near future.

"But beyond the lower headline inflation achieving the Bank of England's forecast of 7.9%, we cannot escape the fact that it still remains well above its overall target of 2%. UK grocery inflation did ease for a third consecutive month in June – a trend which has continued into July, but along with sticky core inflation, still remains painfully high. As is such, the good news may still not be good enough and may influence the Bank of England ahead of the next MPC meeting in August.

"The aim of increasing bank rates is to curb spending. For mortgages holders, this will be most painful for around one million on variable rates and less of an issue for those still on fixed rates. Meanwhile, the triple lock means pensioners are receiving increases in the 10% range. You have to ask is increasing pain on one million going to translate into bringing down spending on the rest of the country. Sustained inflationary pressures are a result of an increase in the base costs of food and commodities due to the Ukraine war. This is not driven by increased consumer spending so trying to drive down consumer spending may not be an effective means to reduce inflation.

"Nonetheless, high inflation keeps the pressure on the most vulnerable of households. With scope for further interest rate rises and stubborn prices, this segment of society has the potential to keep increasing in size. With Consumer Duty coming into force in less than two weeks, firms across financial services have a greater responsibility to support vulnerable consumers. Without a consistent approach to monitoring vulnerability, it will be much harder for firms to be alive to the challenges and to meet the

FCA's new rules."

Emma Hollingworth, managing director of mortgages at MPowered Mortgages:

"Given the steady rise in mortgage rates and high inflation levels, today's figures are not unexpected. Buyer confidence has tempered in recent months, particularly with two-year fixed rates reaching the highest levels since the 2008 financial crash. However, we are beginning to see these rates stabilise in the last. Moreover, with energy bills falling we can expect inflation to trend in a more manageable direction, boosting buyer confidence in the long run.

"It is particularly important to recognise the impact this period will have on first time buyers, who are bearing the brunt of rising interest rates and are most stretched on affordability. While recent discussions on the mortgage charter reflect ongoing efforts from both the government and lenders to support those most impacted, first time buyers should be seeking independent financial advice to work out how they can best achieve their homeownership goals.

"MPowered is not only committed to keeping rates as affordable as possible in the current climate, but is also using AI to speed up the mortgage process. This can give first time buyers a decision quicker, and therefore increased certainty and control to find a product that suits them at this time."

Conor Murphy, CEO and founder, Smartr365 and Capricorn Financial Consultancy:

"Thanks to strong domestic and international demand for UK property, market conditions remain highly favourable. Wimbledon and the Ashes have propelled the capital back onto the main stage, and interest in London property has spiked as a result. But it's not just London where the market remains hot – Zoopla reports that four of the five areas where property is selling the quickest are actually in the North of England.

"With property sales typically moving faster during the summer months, it is important that you have the tech tools to keep pace. Integrating enhanced product sourcing and client relationship tools will streamline your day-to-day operations, while tools like Open Banking keep things running smoothly and efficiently in the background. It is only by evolving legacy practices and mindsets that we can guarantee a seamless customer experience and optimise operations for all parties."

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