

## Our Savings Bulletin provides you with the latest information on interest rates

Hopes that interest rates would be lowered were rebuffed this month, as concerns about inflation risks led the Bank of England to hold interest rates at 5% after last month's cut.

While many observers suggest we will see a quarter-point rate cut next month and another later in the year, this month's news will have provided little in the way of cheer for mortgage holders coming to the end of fixed rate deals or businesses struggling with the cost of borrowing.

Rising fuel and food prices have pushed inflation up. According to the Consumer Prices Index, inflation for February and March this year was at 2.5%, well ahead of the government's 2% target. Rising food prices have had a big impact on the overall inflationary picture. According to the British Retail Consortium, food prices were up 4.7% in April compared to a year ago. Meanwhile, shoppers have retreated from the high street. Retail sales fell by 0.4% in April. Oil prices have also played their part, with crude oil prices surging once again on the wholesale markets, leading to record prices at the pumps.

The credit crunch unleashed last summer by the crisis in the US sub-prime mortgage market continues to make the situation bleak for home-buyers here, with limited funds available for new loans. Household holders trying to renegotiate existing loans will also face difficult times.

The business lobby was dismayed by the rate hold, with economists suggesting that a rate cut next month will do little to halt the UK economy's potential slowdown. While some experts applaud the Bank's measured approach, others argue that that further cuts are needed to stop the slowdown worsening and that by leaving the rate at 5%, the Committee is flirting with recession.

Their warnings follow the release of business data suggesting that a downturn is taking hold. According to the Office for National Statistics, manufacturing output fell by 0.5% in March, the sharpest decline for six months. Meanwhile the Chartered Institute of Purchasing and Supply said the UK's service sector, which accounts for 70% of the economy, grew at its slowest rate for nearly five years in April.

On the upside, the Bank has sent a positive signal by keeping rates on hold. Overall the MPC does not believe the economy to be in the kind of condition that would warrant two back-to-back cuts. And recent statements by the Bank argue that the economy is turning the corner and that we have already seen the worst of the credit crunch and the housing market slowdown.

One point that commentators seem to agree on is that the MPC will want more evidence of a slowdown and a greater understanding of the effects of its recent efforts to revive the market before voting through further cuts.

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