Monthly
Economic Review

Provident Solutions
Wealth Creation & Wealth Management
Financial Lifestyle Planners

Economic review of: April 2012

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; my colleagues and I are always ready to discuss your individual requirements. I hope you will find this review to be of interest.

Paul Smith

Christine Lagarde of the International Monetary Fund sees 'optimism return.'

IMF says 'Optimism returns'

In a pleasing change from the more recent dire economic predictions, the International Monetary Fund (IMF) has revised global economic growth projections upwards to 3.5% for 2012 against its previous projection of 3.3% and it says it thinks the UK's economy will also grow at a faster rate than previously predicted, up 0.8%, rather than the previous 0.6% prediction.

The UK's forecast going forward into 2013 has been maintained at 2%, which is in line with the independent forecast from the UK's Office for Budget Responsibility and the IMF added that "the financial sector was hit hard by the global crisis".

They went on to say: *"In the United Kingdom, with inflation expected to fall below the 2% target amid weaker growth and commodity prices, the Bank of England can further ease its monetary policy stance"*.

Whilst the IMF said *"some optimism has returned"* to the global economy, the Eurozone crisis may yet create problems and it could *"still face major brakes on growth"*.

Several factors were taken into account, such as the US employment rate falling to 8.2%, which would raise optimism globally. This figure reflects the lowest rate recorded since 2009. Also, the massive Euro bailout of Greece has lifted the immediate threat of a major sovereign debt default.

The IMF's full comments on this said; *"With the passing of the crisis, and some good news about the US economy, some optimism has returned."*

However, they added a caveat in that they expect the Spanish economy to drop in 2012 by 1.8%.

The austerity programme in Spain has worried investors, with Spain's 10-year bond yields rising to over 6% (an unsustainable long-term level) and the fact that Spanish banks may be relying on cheap European Central Bank loans for liquidity.

The unemployment rate continues to rise in Spain, with 4.75 million seeking work and over 50% of the countries' under-25's unemployed.

Whilst 17 countries within the Eurozone are forecast to show economic contraction in 2012 of 0.3%, Spain is the only country in the region to have had its economic forecast revised down.

Looking beyond Europe, Brazil and China (part of the BRICs) have been forecast to continue to thrive in 2012 with projections of growth at 5.7%. This is an increase from the previous forecast of 5.5%.

Raising some concerns around the austerity budgets implemented across many European countries, they have advocated greater spending to help keep those economies on a growth path.

Concluding, the IMF stated that: *"Given concerns about fiscal room, a balanced budget fiscal expansion could support activity and employment while keeping fiscal consolidation plans on track, for example, temporary tax hikes matched by increases in government purchases - for much-needed infrastructure - could lead to an almost equal rise in output."*

Are we all in this together?

An equal playing field?

As the austerity measures continue to bite across the country, not everyone is suffering in equal proportions.

According to The Daily Telegraph & Croner Pay Index, which canvassed over 500 companies, and was released in April; whilst ordinary workers have had to suffer either very small pay increases, pay freezes, or even pay reductions - just as the cost of living increases - middle managers across multiple business sectors have seen their pay increase by around 11% during the year ended March 31, 2012.

Some interesting statistics emerged, such as even in the beleaguered construction industry managers saw average pay increase by 11.4%, whilst shop-floor workers could only expect pay increases of 2.4%. The bête noir of financial services even saw managers' pay increase by 5.4%, against the clerical staff only seeing rises of 1.3%.

When measured against the RPI, which is often used to calculate annual wages, of 3.7%, it is obvious that ordinary workers are failing to keep pace with the cost of living. Official earnings in January were only 1.7%, with the private sector showing pay increases of only 2.4% and the public sector faring even worse, with pay increase of only 1.8%.

Manual workers' annual pay was typically £18,460 in March, showing a 2.1% increase over the year. At the same time, managers within the private sector earned an average of £35,473, which represented a 3.2% increase on the year.

Several anomalies were seen, with general staff within the public sector seeing their pay eroded more than their counterparts in the private sector. At the same time, however, senior directors and managers within the public sector outpaced their counterparts in the private sector.

The Head of Reward at Croner, Viv Copeland, commented on these results thus: *"At the beginning of the recession, it was management levels that were being made redundant, employers stripped out middle layers where they could. Those left behind were expected to do more for less."* She went on to add: *"Now they are being rewarded for their hard work -*

their jobs will have changed a lot and employers will want to retain them."

Again variations across different business sectors were evidenced with senior directors within both the banking and construction industries seeing large pay cuts, perhaps heeding the public disquiet at the levels seen in the past, whilst IT workers across all levels saw healthy pay increases being awarded, reflecting the importance of computing and 'Application' development skills across the globe.

Markets: (Data compiled by The Outsourced Marketing Department)

Equity markets watched the further developments in the Eurozone carefully during April, with the Eurostoxx500 ending the month down 6.9% at 2,306.43. This was a reflection on political developments in Spain, Greece and the Netherlands and the closely contested French presidential hustings. Likewise in Japan the Nikkei dipped by another 5.58% to end the month on 9,520.89.

All eyes on Eurozone

Here in the UK, investors monitored events in Europe with interest, seeing the FTSE having a volatile month with daily swings ranging from +1.84% on the first trading day of April to falls of 2.3% on April 4th. The month saw the FTSE100 end marginally lower (-0.5%) at 5,737.8. At this level, the FTSE100 is sitting at -11.71% against its long-term trend. The wider FTSE250 closed down 1.05% at 11,417.59 and the AIM market, closing on 776.9, was off 2.28% for the month.

Across the pond, the Dow Jones closed at 13,213.63, virtually unchanged on the month, with the NASDAQ down slightly by 1.46% at 3,046.36.

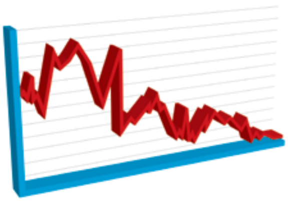
On the currency markets, again the Eurozone worries saw the Euro slip against the greenback to $1.32 and to €1.22 against sterling. Against the US dollar, sterling improved 1.25% to sit at $1.62 at the close of the month.

On the commodity front, Gold had a quiet month, finishing little changed at $1,663.78 an ounce and in the Oil market Brent Crude closed at $119.83 a barrel, encouragingly down 2.48% on the month.

The UK Consumer Prices Index at end-March, reported mid-April, was 122.2 (+3.5%) and the Retail Prices Index 240.8 (+3.6%).

All is not lost because of 'Double-dip' recession:

With the government confirming that we have indeed entered a double-dip recession, with UK GDP falling by 0.2% in Q1 2012, following the 0.3% drop seen in Q4 2011 and the Organisation for Economic Co-operation and Development (OECD) pouring out more pessimistic missives about the UK economy, you might be forgiven for wanting to lie down in a dark room with a damp cloth over your furrowed brow.



Not all bad news

However, let's look a little deeper into these statistics. Yes, we all thought H2 2012 would be a rough ride, with the credit crunch and austerity measures forcing consumers to rein in their spending and the banks, recovering from their glut of profligate lending, having to massively deleverage their balance sheets over the past three/four years and as a result choke off the supply of lending needed for any chance of growth to occur.

Even the OECD themselves believe that H2 2012 will see the economy here rebound, forecasting growth of 0.125%, whilst the Chancellor, George Osborne, has told us that the Office for Budget Responsibility forecast an outcome for the whole of 2012 showing GDP growth of 0.8% and the public sector's borrowing estimate to be £7bn below their earlier forecast.

Given his modest largesse in the Budget, increasing personal tax allowances this year and further to £9,205 from April 2013, maybe this can be the catalyst to loosen the consumer's purse strings and boost the spending needed to help revive domestic growth. Add to this the estimated £750bn of cash currently hoarded in corporate balance sheets. Should these companies start to invest and spend some of this, surely we can see the UK economy finally moving in an upward direction.

Our cousins across the pond can also help here, with their economy moving strongly up, we may catch the contagion over here. As they say 'When the USA sneezes the world catches a cold,' but the counter-point may also apply.

So all is not lost and provided we do not see any further Eurozone crises and the oil price does not hyper inflate, surely we can see a blue horizon ahead moving into Q2, and the rest of 2012.

Positive jobs data

The Office for National Statistics (ONS) has just released the latest unemployment figures covering the December 2011 - February 2012 period and at long last they reveal a reduced level.

Unemployment falls at last

The official figures state that unemployment fell by 35,000 to 2.65 million, therefore allowing the ONS to report a reduction of 0.1% in the total percentage of unemployed to 8.3%, falling slightly from the 12-year high reported last time. However, the job-seekers claimant numbers rose to 1.61 million. That is an increase of 3,600 people, representing the highest number since October 2009.

Commenting to BBC News, Nick Palmer of the ONS was quoted as saying: *"If you look at the longer term picture, unemployment rose quite strongly during the summer of last year, then the increases tailed off a bit towards the end of the year."*

He went on to add: *"So despite this latest decrease, the level of unemployment is significantly higher than it was a year ago, in fact it is some 170,000 higher than it was at the same point a year ago."*

More detailed analysis of the data reveals more and more people – up 89,000 to 1.4 million – having to resort to part-time work, as the full-time opportunities they want are simply not there. This represents the highest number since records began, back in 1992.

Echoing their concern in this regard, the TUC's General Secretary, Brendan Barber, said: *"While any rise in the number of jobs is welcome, the fact is that full-time employment is still falling and a record (number) are now stuck in involuntary part-time work."*

For the government the Employment Minister, Chris Grayling, said: *"One of the things we are seeing is more people coming back into the workplace. Some of those moving into part-time work we know are women who either have got children and are coming back into part-time work because they are at school, or who are older and the children are grown up and are coming back into part-time jobs."*

Regionally the figures showed great variation, with the South East recording the lowest unemployment rate at 6.3% against the North East, which recorded an 11.2% unemployment rate.

On the positive side, the number of younger jobseekers, that is those aged 16-24 reduced to 1.03 million, although this still represents an unemployment rate of 22.2% within this group.

Issued by: **Provident Solutions Ltd**

Kingston House, Meadow Hill, Great Glen, Leicester LE8 9FX

Telephone: 0116 2592371 - Fax: 0871 750 2621

Email: enquiries@providentsolutions.co.uk - Website: www.providentsolutions.co.uk