Monthly

Economic Review

Provident Solutions
Wealth Creation & Wealth Management
Financial Lifestyle Planners

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Economic review of: April 2013

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

Triple-dip recession avoided by the UK economy

Positive growth seen in Q1

Contrary to a lot of the more pessimistic economic forecasts, the UK managed modest growth of 0.3% in the first quarter of 2013.

Whilst the figures, released this month from the Office for National Statistics (ONS), reflected a flat economy, they were better than many expected. The ONS also commented that there were no extraordinary contributing factors, such as the Olympics, to flatter these figures.

They added that the first quarter figure of 2013 had risen by 0.6% compared with the same period in 2012; this is its strongest performance since Q4 of 2011.

The service sector led the increase in productivity, with retail, hotels and restaurants performing well. The energy sector also contributed positively, with increased North Sea oil and gas production. Overall this sector saw growth of 0.6%.

Telecommunications and transport also contributed positively with growth of 1.4%.

On the negative side, construction, with a dip of 2.5%, and manufacturing also saw a decline in output to slightly dent the overall figures.

Given the negative comments made recently by the International Monetary Fund and a downgrading of the UK's AAA credit rating by another of the agencies, George Osborne, the Chancellor of the Exchequer, said of the ONS announcement: *"Today's figures are an encouraging sign the economy is healing. Despite a tough economic backdrop, we are making progress. The deficit is down by a third, businesses have created over a million and a quarter new jobs, and interest rates are at record lows.*

"We all know there are no easy answers to problems built up over many years, and I can't promise the road ahead will always be smooth, but by continuing to confront our problems head on, Britain is recovering and we are building an economy fit for the future."

As a caveat, UK economic output remains 2.6% below its pre-financial crisis level.

Funding for Lending Scheme extended

BoE offers more funding

In a continuing effort to boost growth in the UK economy, the Bank of England's (BoE) Monetary Policy Committee saw *"merit"* in extending their Funding for Lending Scheme (FLS) for another year, out to 2015, as an alternative to expansion of its Quantitative Easing (QE) programme. This action was mooted by George Osborne, the Chancellor of the Exchequer, in his March budget speech.

Launched last August, and initially expected to finish in December 2014, the FLS has come into criticism, as it has so far failed to improve bank lending.

Designed to encourage banks to lend – particularly to small to medium-sized enterprises (SMEs) - the banks were offered an extra £5 for every £1 they lent to these businesses. Now they will be able to borrow £10 in 2014 for every £1 they lend to SMEs in 2013.

In fact, the BoE's own figures show that banks drew down £14bn from the FLS between August and December 2012, but surprisingly, lending from those banks to SMEs was lower than in the six months before the scheme was introduced.

This latest extension of the scheme will also see specialist finance houses embraced into the facility. At present these type of organisations offer over £20bn of working capital to SMEs each year.

With interest rates, set by the BoE, at the historically low level of 0.5% for four years now, it is hoped that bank lending will improve in the short term.

The champions of UK business, the Confederation of British Industry's (CBI) Director for Competitive Markets, Matthew Fell, said of this announcement: *"Funding for Lending is only one piece of the finance jigsaw. Boosting firms' confidence by raising awareness of the various funding schemes available is critical."*

However, Stephen Gifford, the Director of Economics at the CBI said: *"With only a modest pick-up in growth expected, the possibility of further QE will remain a live issue."*

Markets: (Data compiled by The Outsourced Marketing Department)

Most global equity markets remained on a watching brief in April with little movement. The FTSE100 saw a modest gain of 0.29% to finish the month on 6,430.1, just 2.37% below its long-term trend, whilst the wider FTSE250 closed April on 13,949.9, up 0.19%, and the AIM market at 706.22 to record its second month of decline.

The Dow Jones fared slightly better finishing at 14,839.8, to register a 1.79% gain, and the Nasdaq followed suit with a gain of 1.88% to close at 3,328.79.

Encouraged by the formation of a new coalition government in Italy, the Eurostoxx50 finished April well at 2,712.00 for a gain of 3.35% on the month.

Meanwhile, the Japanese market saw continuing buying interest, with possible carry-trade activity, due to the massive boost to the money supply from central bank activity. The Nikkei leapt by 11.8% to close out the month on 13,860.86. The index has now risen by 33.3% since the end of last year.

Japanese market leads the way

On the foreign exchanges, UK sterling appreciated slightly against the greenback to close on $1.55, up 1.9%, whilst it lost ground a little against the Euro, down 0.84% at €1.18. The Euro also appreciated against the US$ by 3.13%, finishing April at $1.32.

The good news was that the oil price dipped by nearly 7% in the month, with the Brent Crude benchmark closing on $102.37, having dipped below the psychologically important $100 level at one point earlier in the month.

Gold had an active month, with a major dip in the price to near $1,350 earlier in the month, but rallying to close at $1,471.35, registering a net 8% fall in the month.

Inflation remains static

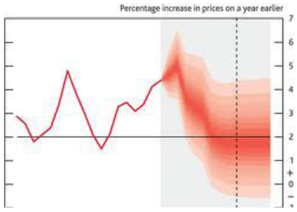
The Office for National Statistics (ONS) reported that the Consumer Prices Index (CPI) remained at 2.8% in March; however, this is the highest level it has reached since May 2012.

They stated that whilst car insurance premiums, digital cameras, DVDs, and books, saw an increase in price in the month, these were offset by lower petrol and diesel fuel costs. Here petrol prices only rose by 2.2p a litre, whereas last year saw an increase of 3.3p a litre. Likewise, diesel prices rose by 1.9p a litre against a rise of 2.6p a year earlier.

Other factors were a slower increase in the price of furniture and a fall of 0.5% in the price of tobacco and alcoholic drinks.

Their report did, however, add that they saw a reduction in producer prices, with factory gate inflation rising by only 2%, which is the lowest level since July last year. This was mainly due to the largest annual fall in crude oil prices over that same period.

Meanwhile, the Bank of England stated that they believed UK inflation will go higher than 3% before the end of this year, due to a global increase in food prices and an anticipated increase in the domestic cost of gas and electricity. They added that their forecasts saw inflation remaining above the officially targeted 2% until at least 2016. It has now been above this level since 2009.



Little change in CPI this month

With the CPI sitting at 2.8%, consumers' spending power continues to be diminished, as the growth in average earnings is only 1.3%, which continues to dampen consumer demand.

Looking forward, there is hope that inflationary pressures will ease, as Brent Crude oil dipped below $100 a barrel this month. This is reflected in a reduction of about 2.5p in the price of a litre of unleaded petrol and supermarkets have reignited a price war at the pumps to try to attract motorists to their stores.

RICS says housing market shows 'early signs' of growth

Whilst overall growth remained slow, The Royal Institution of Chartered Surveyors (RICS) reported in April that interest by potential buyers of new homes in England and Wales rose in March.

Encouraging signs in housing

At the same time, HM Revenue and Customs (HMRC) reported that UK house sales in February were 10% higher than the corresponding month in 2012.

This interest has been attributed to the 'Help to Buy' initiative announced in the recent Budget and an improvement in mortgage availability due to the Government's 'Funding for Lending' scheme. The former offering a 20% equity share for new-build buyers who can raise an initial 5% deposit and the latter giving lenders – both banks and other mortgage providers – access to cheap funds, on the proviso that they then pass this rate reduction on in loans and mortgages to small businesses and home buyers.

RICS reported that sales per surveyor reached a three-year high in March; however, more members reported a fall in house prices generally, rather than a rise in the first quarter of the year.

Peter Bolton King, of RICS, was quoted as saying: "A buoyant, healthy property market is central to economic recovery and, whilst these are still very much early signs, it is encouraging that sales are beginning to pick up."

These were all encouraging signs for the housing market; particularly with mortgage rates sitting at historical lows. However, concern was raised at the level of charges being made for them; with one market commentator estimating that average fees for mortgage approvals has risen by 8% since January, with an average of £1,522 being reported in April.

As a final caveat, the National Association of Estate Agents (NAEA) cautioned that first-time buyers should very carefully research, not only the location of any intended house purchase, but also the options available to them to finance the home on the most advantageous terms.

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