ECONOMICREVIEW
of April 2014

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

Paul Smith

Q1 GDP grows by 0.8%

The hoped for 1% growth in Gross Domestic Production (GDP) for Q1 2014 did not materialise; however, the economy did put in a very commendable performance, rising by 0.8%.

This is the fifth consecutive quarter of GDP growth, according to the Office for National Statistics (ONS).

Their first estimate for the quarter is higher than the 0.7% recorded in the last quarter of 2013, and is 3.1% higher than Q1 last year.

GDP up for fifth quarter

More importantly, the growth in output was more balanced across the economy this quarter, with construction up 0.3%, despite the storms and bad weather encountered in the quarter. Likewise, manufacturing saw growth of 1.3%, its best performance for four years, and services, the biggest UK industry sector, rose by 0.9%. The only sector lagging behind was agriculture, which recorded a fall in output of 0.7%. As welcome as this data is, the ONS did stress that the UK economy was still 0.6% below its 2008 peak.

Commenting on these figures, The Chancellor of the Exchequer, George Osborne, said: *"Britain is coming back."*

He went on to caution though that: *"The impact of the Great Recession is still being felt, but the foundations for a broad based recovery are now in place.*

"The biggest risk to economic security would be abandoning the plan that is laying those foundations."

This encouraging news gives more credence to the recent prediction from the highly respected International Monetary Fund (IMF), that the UK would be the best performing of the world's leading economies this year. They estimated growth here through 2014 of 2.9%.

At the same time, the independent Office for Budget Responsibility, also predicted UK growth to be at 2.7%, whilst the Bank of England was even more bullish, estimating 2014 growth of 3.4%.

Five-year low for UK unemployment

The Chancellor of the Exchequer, George Osborne, welcomed the *"strong jobs numbers"* reported by the Office for National Statistics (ONS) in mid April and was quoted as saying: *"There are now a record number of jobs in Britain – and today we have taken a further step in meeting the ambition I have set for full employment. Every job created means another family with greater economic security and the prospect of a brighter future.*

"These remain difficult times for families facing pressure on their budgets, and much work needs still to be done to build a resilient economy. But today's news supports the argument we have made all along that the only way to see rising living standards is to grow the economy."

UK unemployment has fallen by 77,000 in the three months to February and now stands at 2.24 million, according to this latest data from the ONS. This brings the rate down to 6.9%.

Those claiming Jobseeker's Allowance also dipped by 30,400 to 1.14 million in March and youth unemployment (those aged 16-24 years) fell by 38,000 to 881,000.

Those classed as self-employed also grew to its highest level since 1992, rising by 146,000 to 4.5 million.

Further good news was that average earnings, in the same period, grew by 1.7% compared with the previous year and are now higher than the current rate of inflation at the 1.6% recorded in March; the first time this has happened since 2010.

Commenting on these figures, the Chief Economic Adviser to the ONS, Joe Grice, said: *"These figures – rising employment and falling unemployment and inactivity – continue the strong trend in the labour market that has been seen in recent months."*

Given these strong figures, interest rates may rise earlier in 2015 than some analysts previously expected.

Markets: (Data compiled by The Outsourced Marketing Department)

The equity markets were like the curate's egg in April – good in parts. In London the FTSE100 regained most of the ground lost in March, seeing a 2.75% gain for the month to close at 6,780.0. This leaves the main index just 150 points off its all-time closing high of 6,930. Meanwhile, the wider FTSE250 continued to lose momentum, finishing at 15,817.20 for a 2.81% fall in the month and the junior AIM market also losing 3.3% to end on 822.6.

The Dow Jones index in America marked time, closing at 16,580.84 to record a modest 0.75% gain, whilst the Nasdaq fell off 2.01% to close on 4,114.56.

The European bourses continued their recent bullish run, with the Eurostoxx50 gaining for the third straight month, finishing April at 3,198.39 for a 1.16% improvement.

The Nikkei 225, however, lost ground, finishing at 14,304.11 to record its 4th straight month of losses, 3.53% on this occasion.

The good economic news coming from the UK saw Sterling gain across the board on the foreign exchanges. It finished April against the US Dollar at $1.69 for a 1.2% monthly gain and a 3% gain over the last three months. It also improved against the Euro by 0.83% to €1.22. The Euro itself was also stronger against the US Dollar, closing at $1.39 for a modest rise of 0.72%.

On the commodity front, oil had a quiet month, with the Brent Crude benchmark rising slightly by 0.61% to $108.07 a barrel. Gold also saw little movement in April, closing the month at $1,282.90, down just 0.08%, but recording a 2.9% gain over the last three months.

Global equities mixed in April

Consumer Prices Index falls to 1.6% in March

UK inflation, as measured by the Consumer Prices Index (CPI), fell to its lowest level for over four years in March, to 1.6%, further bolstering the coalition Government's current economic policy.

This is the sixth month in succession that the (CPI) inflation rate has fallen, which is the longest consecutive fall since modern records began and the third month in a row that it has fallen below the Bank of England's (BoE) target of 2%. It is now at its lowest level since 2009.

One of the main factors in the decline in the rate of inflation was the fall in transport costs, particularly motor fuels (petrol and diesel), as well as clothing costs, furniture and household goods. Countering these falls, however, restaurants and hotels saw a rise in prices, together with an increase in the cost of alcohol and tobacco.

Speaking on behalf of the British Chambers of Commerce, David Kern, their Chief Economist, said the figures were *"good news"* for businesses and added: *"It contributes to an environment of stability and reduces the case for short-term interest rate rises."*

On a wider front, the European Central Bank's (ECB) President, Mario Draghi, said that they would give *"further stimulus"* to the eurozone economy, should inflation in that region continue to remain low – it is currently at a dangerously low level of 0.5%.

This would act as a trigger to loosen monetary policy in the form of quantitative easing (QE) and, hopefully, help to avoid deflation in that region. This is something the International Monetary Fund (IMF) has been advocating for some time.

Mr Draghi was quoted as saying: *"If you want policy to remain as accommodative as now, a further strengthening of the [Euro] exchange rate would require further stimulus."*

CBI reports strong rebound in sales

In the latest Distributive Trades Survey, released by the Confederation of British Industry (CBI), retail sales are reported to have grown strongly in the year to April 2014 and the CBI expects this trend to continue into May.

Of the 131 companies surveyed, they reported increased sales in April, from March, which represents the fifth consecutive month of increase. As they expect this to continue into May, it will mark the strongest sales growth seen since 2010.

Internet sales continued their upward trend, recording the highest rise in sales volume since 2012.

In the retail sectors, footwear and leather goods, hardware, groceries, and DIY all performed well, showing increased sales from March.

Of the respondents in this sector, 42% reported sales increases from the previous year, whilst 12% reported a decline, leaving a balance of +30%.

27% of these retailers reported sales volumes above average for the time of year, with 9% saying they were lower; a balance of +18%. This matched the highest balance score last seen in 2010.

Sales of motor cars also did well, with 88% of traders reporting increased sales and only 9% showing a decline. This left a +79% balance, which was considerably above the forecast level of +33%.

However, on the negative side, 40% of wholesalers reported a rise in sales volumes, but 39% said they were down, leaving a 'rounded' balance of only +2%.

Strong future sales growth

Other sectors also saw excellent results, with building materials showing a balance of +95%, durable household goods +23% and *food and drink +54%.*

The Chair of the CBI survey and Asda SVP and Chief Merchandising Officer for Food, Barry Williams, was quoted as saying: *"This latest survey echoes the current drumbeat of positive economic news…."*