ECONOMICREVIEW

of April 2015

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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

Mixed messages on the UK's economy

In its March revised estimate of economic growth, the Office for National Statistics (ONS) said that in the last quarter of 2014 it grew by 0.6%. This is an improvement on the 0.5% previously estimated.

As a result of this unexpected improvement, the ONS also raised its annual estimate to 2.8%, again an improvement on its previous forecast of 2.6%. At this level the UK economy has recorded its highest rate of annual growth seen since 2006, when Gross Domestic Product (GDP) reached 3%.

ONS forecast of economy raised

The biggest factor behind this increase was, encouragingly, a marked improvement in the country's exports. Other areas of improvement was an expansion in production, services and, given a simultaneous rise in average wages over the period, household spending.

GDP per capita is now 4.8% higher than at the time of the last election in 2010, however it is still 1.2% below its peak, achieved in early 2008, just prior to the start of the 'Great Recession'.

The Government's independent financial watchdog, the Office for Budget Responsibility (OBR) has left their forecast for the economic outcome of 2015 at 2.5%, but many economists and analyst, such as Ernst & Young's ITEM club, which also uses the UK Treasury's economic model, believe this to be a cautious figure, as some believe 2015 will see the economy grow by 3%.

However, in late April the ONS released figures for the first quarter of 2015, which showed a slowing down in the rate of economic growth to 0.3%, as growth of 0.5% in the services sector was offset by a 1.6% fall in the construction sector. The ONS did add that the economy was still 2.4% larger than the same period a year earlier.

Service sector powers ahead

According to the latest Markit/CIPS Purchasing Managers' Index (PMI) the UK's service sector – the largest sector in the economy, accounting for approximately 75% of economic activity in the country – rose at its fastest rate since the middle of last year. The index, at 58.9 in March, was higher than the previous month's figure of 56.7. Any reading above the 50 mark represents expansion in the sector.

Employment growth remained strong in the sector and a lowering of costs was also recorded.

The economists at PMI therefore predict that, together with their additional analysis of the manufacturing and construction sectors, overall the UK's economy will have grown in the first quarter of 2015 by 0.7%. This bullish forecast is reinforced by other research conducted by the Confederation of British Industry (CBI), who have also forecast Q1 2015 growth of 0.7%, itself an improved forecast of 0.1% from their previous estimate.

The Chief Economist of Markit, Chris Williamson, said that these finding: *"bode well for the upturn to retain strong momentum as we move through the spring."*

He went on to add: *"While the data support the view that the next move in interest rates will be upward, the lack of inflationary pressures suggests the first hike remains some way off, and probably not this year unless we see some significant upturn in wage growth."*

At the same time, the Office for National Statistics (ONS) reported that compared with a year earlier, in the three months ending in February 2015, average pay including bonuses for employees in the UK rose by 1.7% and by 1.8% excluding bonuses.

Overall, taken together, these latest forecasts seem to suggest the UK's economy is set fair for the first half of 2015.

UK's biggest business sector grows

Markets: (Data compiled by The Outsourced Marketing Department)

Global equity markets had a good month across the board in April, with the FTSE100 gaining 187.6 points in the month to end 2.77% up. Whilst it managed to attain three new all-time highs in the period, touching 7,104.0 at one point, it fell off towards the month end to finish at 6,960.6, just over 2% off its peak. The wider FTSE250 also gained 2.25%, to close April at 17,474.63 and the junior AIM market rose to 753.27 to record a 5.18% improvement.

Concern over the slowing of the US economy dented the Dow Jones index, as it ended at 17,840.52, for a modest improvement in the month of 0.36%. Nasdaq, the technology based market, also struggled, gaining only 0.83% in April to end at 4,941.42.

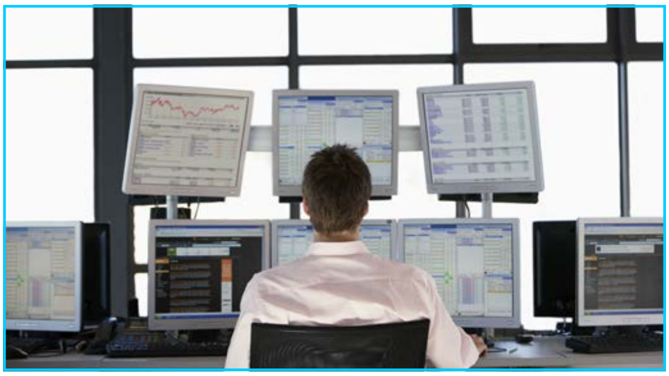
The Eurozone market lost some of its recent vitality, slipping 2.17% as the Eurostoxx50 closed out the month off 80 points at 3,617.11.

The continuing bull-run in Japan saw the Nikkei225 index rise to 19,520.01, a gain of 1.63% for the month and to record an impressive rise of 11.85% since the beginning of 2015.

On the foreign exchange markets, the Euro currency regained some momentum against the greenback, finishing at $1.13, an improvement of 5.51%. Sterling also improved against the US Dollar ending April at $1.54, to record a 4.05% gain. Against the Euro, Sterling slipped a fraction to €1.37, a marginal fall of 0.72%.

The oil price, as measured by the Brent Crude benchmark, recovered to $66.75 a barrel, a gain of nearly 21% on the month and recording an improvement in price of 16.43% since the turn of the year.

Gold bullion remained out of favour in April, closing the month at $1,183.84 an ounce, little changed on the month and down 7.1% for the year so far.



Equities have a good month

Government borrowing beats OBR forecast

The contentious subject of the Government deficit, as discussed by all contending parties in the forthcoming general election campaign, was brought into sharp focus in April.

Back in March, the independent Office for Budget Responsibility (OBR) forecast that the UK Government's borrowing in 2014-15 would be £90.2bn. However, the official figures, released by the Office for National Statistics (ONS) in April, showed a lower figure for the financial year of £87.3bn. March 2015's borrowing saw a fall of £400 million from the same month last year and the total was £11.1bn lower than last year.

A strong increase in the Government's revenue from income tax and national insurance, amounting to £15.5bn in March, was mainly responsible for this improvement in overall borrowing.

This is very good news, given that Government borrowing peaked at £153bn in the 2009-10 financial year, at the height of the financial crisis and at the onset of the Great Recession.

This deficit has now halved to 4.8% of Gross Domestic Product (GDP) from the 10% it represented back in 2009-10 financial year.

Attention on the fiscal position intensifies

With a Total Public Sector Net Debt (PSNB) now standing at £1,484bn in March, this represents the equivalent of 80.4% of GDP; this is £500 million higher than it stood in the year before this current Government took power.

Whilst showing an encouraging downward trend, many commentators voice concern that the fiscal deficit is still a major issue and are calling for a mature debate on the subject across the board.

Ms Sumita Shah, Regulatory Policy Manager, Public Sector, at the Institute of Chartered Accountants in England and Wales (ICAEW), was quoted as saying: *"Whoever forms the next Government will have to face up to the stark reality of the UK's fiscal position."*

Unemployment continues to fall

Employment continues to improve in the UK, as the Office for National Statistics (ONS) reported that in the three months ending February 2015, there were 31.05 million people in work; an employed percentage of 73.4%, which represents the highest rate since comparable records began in 1971. This is an improvement of 248,000 people from the previous three-month period and 557,000 more than a year earlier.

The unemployment figures also improved, with 1.84 million people now without employment, a rate of 5.6% (down from the previous 5.7%). This is 76,000 fewer people than in the previous three-month period and 416,000 less than a year earlier.

Those claiming the Jobseeker's Allowance fell to 770,000, a dip of 20,700 on the month and by 369,000 on the year.

The long-term unemployment count – those deemed to have been out of work for a minimum of 12 months - also dipped to 623,000, a fall of 188,000 people.

In the period covered by the ONS's latest report, data showed that 107,000 people were made redundant, a substantial reduction from the peak of 311,000 recorded in 2009.

The number of 16 to 64-year-olds who are deemed to be 'economically inactive' - that is out of work and not seeking or available to work – is now at 8.99 million. This is 104,000 less than for the September to November 2014 period, but 11,000 more than a year earlier and represents an inactivity rate of 22.1%, lower than the previous quarter but unchanged on the year.

On the supply side, there were 743,000 job vacancies available in the UK in the three months to March 2015, which is 124,000 more than a year ago and the highest number recorded since records began in 2001.