# ECONOMICREVIEW
## of April 2016

Provident Solutions
Wealth Creation & Wealth Management
Financial Lifestyle Planners
www.providentsolutions.co.uk

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


**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 2016 UK economic growth slows

The Office for National Statistics (ONS) reported that between January and March 2016 Gross Domestic Product (GDP) grew by 0.4% in-line with economists' expectations, down from 0.6% in Q4 2015. This marks the 13th consecutive quarter of positive growth for the UK.

***Slowing of economic growth in Q1***

The ONS report that this slowing of economic growth in Q1, was partly due to a sharp fall in construction output, falling 0.9% during the first three months of 2016. Industrial output also dragged, falling 0.4% during the period, as did agriculture by 0.1%. The ONS said there was no evidence to substantiate a 'Brexit effect 'on GDP. The government's decision to hold the EU referendum was not taken until late February. Business groups cite the impact of weaker global trade and New Year financial market turbulence as more likely explanations for the tail off in growth.

The service sector, the largest part of the economy which accounts for more than three quarters of GDP, continues to perform well, growing 0.6% in Q1, compensating for falls in output in the other three parts of the economy. Joe Grice, Chief Economist at the ONS, commented, *"Today's figures suggest growth has slowed as compared with the pace up to the middle of last year. Services continue to underpin the economy but other sectors have shown falling output this quarter."*

Ruth Miller, economist at Capital Economics, said of the slowdown in growth, *"Many of the factors likely to blame for the first quarter's weakness should prove short-lived. We would not be surprised if growth were to subsequently accelerate in the second half of the year, putting the economy back on track."*

The IMF recently downgraded its global growth forecast and unlike the ONS, refer to Brexit ambiguity as a contributing factor.

## IMF cuts UK annual growth forecast

The International Monetary Fund (IMF) has cut its forecast for UK annual growth from 2.2% to 1.9%, citing the 'uncertainty' posed by the EU Referendum. In 2015, Britain's economy expanded by 2.3%, with economists expecting that growth would slow this year and in subsequent years, a view shared by the IMF who have kept their forecast of 2.2% growth in 2017 unchanged.

The IMF believes that 'A British exit from the European Union could pose major challenges for both the UK and the rest of Europe. Negotiations on post-exit arrangements would likely be protracted, resulting in an extended period of heightened uncertainty that could weigh heavily on confidence and investment, all the while increasing financial market volatility'.

The Prime Minister, not surprisingly, supports this view commenting, *"The IMF is right – leaving the EU would pose major risks for the UK economy. We are stronger, safer and better off in the European Union."* However, those campaigning for Britain to leave the EU have rejected the views held by the IMF and have accused it of downgrading the UK's forecast at the request of the Chancellor, George Osborne. They also point out that IMF forecasts for the UK have often proved wrong in the past.

Those advocating the UK's exit from the EU believe that remaining in an unreformed EU poses even bigger risks. They argue that fundamental problems with the European banking system and the euro remain unsolved, as does the current migration crisis.

The UK isn't the only economy to see its forecasts cut by the IMF. The US forecast has been reduced from 2.6% to 2.4%, with the global growth figure scaled back from 3.4 % to 3.2%.


***IMF reduces global growth forecasts***

## Markets: (Data compiled by The Outsourced Marketing Department)

Following the IMF downgrade for global growth, equity markets were relatively unmoved as growth expectations had already been marked down. Most economists had previously downgraded their forecasts in response to weaker growth in both the US and Japan, combined with ongoing concerns over the emerging markets, uncertainty over the EU Referendum and commodity prices. As commodity prices firmed up and business surveys picked up, the outlook brightened somewhat. With growth and inflation continuing to disappoint, central banks are under increasing pressure to add further stimulus.

In the UK, the FTSE100 gained 235.4 points or 3.8% to the month's high of 6410.30 (20 April), losing ground in the latter days of the month to finish April at 6241.90, a modest month-on-month rise of 1.1%. The wider FTSE250 lost 0.7% over April, to close the month at 16,801.60. The junior AIM gained 2.4% over the month to close on 727.70.

Across the pond, the Dow Jones index gained a mediocre 0.5% during April to close the month on 17,773.64. The NASDAQ, heavily influenced by technology stocks, fared worse losing 94.49 points to 4775.36 a fall of 1.9%. On 28 April, Fed officials voted to leave monetary policy on hold, opting not to guide towards an imminent hike in interest rates. Their statement reflected a slight improvement in the economic outlook as they removed the reference to global developments continuing to pose risks.

On the continent, the Eurostoxx50 experienced a three month high of 3151.69 (21 April), however ended the month gaining just 23.28 points to

***A mixed bag in global markets***

3028.21, an advance of 0.8%. In Japan, where government debt continues to rise and the budget deficit remains high, the Nikkei225 index lost 0.6% to 16,666.05. In a surprise move, on 27 April the Bank of Japan chose not to increase stimulus efforts against market expectations.

In currency markets, the US dollar finished the month at $1.45 against sterling and the euro closed at €1.27 versus sterling. Oil had a good month, Brent crude ended April up 17.5% to $47.39 a barrel. Gold also experienced positivity with the metal rising +4.9%, to close at $1,292.87 a troy ounce.

## UK borrowing overshoots target

The Chancellor's deficit reduction policy has again come under pressure with news that the budget deficit for the financial year to March stood at £74bn, £17.7bn less than the previous year, but £1.8bn more than the Office for Budget Responsibility's (OBR) forecast of £72.2bn for 2015-16. However, commentators believe that in macro-economic terms this is a fairly modest overshoot and means that the OBR forecast could yet be vindicated.

George Osborne had pledged to return the UK economy to surplus by 2020, with the OBR forecast stating that the UK could be running a budget surplus of £10.4bn in 2019-20 and £11bn the following year. However, the Chancellor has since revised down his forecasts in a move designed to shrink the deficit more slowly, and reduce the need to introduce yet more austerity measures. In the most recent forecast, the OBR expects the deficit to be £55.5bn in 2016-17, £38.8bn in 2017-18, falling to £21.4bn in 2018-19.

Reporting on income and expenditure, the ONS said that the government received £636.2bn in income for the financial year to March, an increase of 4% on 2015. Over the same period the government spent £696.2bn, roughly in line with the previous year. Two thirds of this figure goes to central government departments, the remaining third is accounted for by expenditure on social benefits including pensions, unemployment benefit, child benefit and maternity pay, together with capital investment and the interest payments due on the government's outstanding debt.

With weaker than expected growth from tax receipts contributing to the borrowing target overshoot, HMRC has announced that it has plans to pursue tax avoiders more assiduously in the coming year. It remains to be seen if these measures, together with the planned savings to the welfare budget, will enable the Chancellor to meet this year's target.

## Retail sales, particularly online, continue to rise

UK retail sales in March continued to show year-on-year growth with the volume of sales estimated to have increased by 2.7% compared with March 2015, the 35th consecutive month of annual growth.

Figures for online sales underline the continuing changes in British shopping trends, with consumers turning away from purchasing on the high street in favour of more online shopping. The value of online sales was 8.9% higher than a year ago.

Clothing and footwear sales declined, however big ticket items continued to perform well with furniture being the main contributor to total sales growth. Average store prices, including petrol stations, were 3% lower in March compared with a year earlier, an indication that inflation will continue to remain low.

Sales over the Easter weekend were disappointing, due in part to the poor weather that deterred shoppers from buying summer clothes or spending money in garden centres. However, commentators believe that these purchases are simply deferred and expect to see figures bounce back when the weather improves.

The composition of the high street looks set for further change as two well-known high street names called in the administrators in April. BHS employs 11,000 and has 164 stores in the UK, Austin Reed employs 1,200 people and has 100 standalone stores and is represented in a further 50 locations. Commentators expressed the view that these brands had failed to keep pace with their competitors and the changing habits of UK shoppers.