Monthly

Economic Review

Provident Solutions
Wealth Creation & Wealth Management
Financial Lifestyle Planners

www.providentsolutions.co.uk

Economic review of: February 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

New Deputy Governor appointed at the Bank of England

New Bank regime put in place

The Bank of England has announced that Andrew Bailey, currently Managing Director of the Prudential Business Unit at the Financial Services Authority, has been appointed as Deputy Governor of the Bank of England, with effect from April 1st. This will be the first time that the Bank will have three concurrent Deputy Governors.

At the same time, he will be appointed Chief Executive of the Bank's new Prudential Regulation Authority (PRA), which will replace the current system of regulation.

The PRA's brief will be to ensure that financial institutions in the UK, including banks, maintain 'prudential regulation' and do not take on excessive risk.

He moved from his previous post at the Bank of England, where he was Chief Cashier - and as such his signature adorned our bank notes in circulation - to the Financial Services Authority, in 2011, where he was responsible for transferring the then FSA's supervisory powers to the Bank.

George Osborne, the Chancellor of the Exchequer, commenting on his appointment said: *"Andrew Bailey has the right skills and experience to lead the Prudential Regulation Authority as it moves into the new era of judgement-led supervision.*

"Putting the Bank of England in charge of prudential regulation is at the heart of the government's reforms to regulation of financial services."

The current Governor of the Bank, Sir Mervyn King added: *"We have a big job ahead to ensure the UK has a stable financial system...able to support activity in the economy and the needs of the public. There have been important and painful lessons from the financial crisis and we must ensure the UK has a successful system of financial regulation."*

ONS revises UK economy up for 2012

Adding further bullish sentiment, the Office for National Statistics (ONS) announced in late February that the UK economy grew by 0.2% in 2012. This is a modest improvement from their previous estimate of zero growth. However, they left their Q4 (2012) assessment at -0.3%, which is unchanged from their previous estimate.

New figures show growth

The revised annual figures reflect an improvement of 0.1% in the contraction of Q1 and an improvement from 0.9% growth in Q3 to 1.0%, with the benefits seen from the London Olympics being the main factor here, as all ticket sales were statistically deemed to have taken place in Q3.

Whilst the final Q4 figures disappointingly remained at -0.3%, there were some interesting differences in the performance of various business sectors.

The construction sector had their output revised upwards to 0.9% from the previous estimate of 0.3%, whilst the production sector had their performance adjusted down from a contraction of 1.8% to 1.9% and the service sector, which is responsible for 75% of the UK economy, saw their performance revised down to a contraction of 0.1%.

At the same time the ONS announced expenditure figures for Q4 2012, with consumer spending up 0.2%, but imports down 1.2% and exports down 1.5%. Business investment was also reported to have fallen by 0.4%.

Commenting on this report, the Director General of the British Chambers of Commerce, John Longworth, said: *"These figures, coupled with the recent downgrade of the UK's credit rating, confirm that action must be taken quickly to get the economy growing again.*

"The Chancellor should seize the opportunity in next month's Budget to be radical, and introduce measures that create

an environment of enterprise, stimulate export growth, kick-start infrastructure projects and create a structure of business finance which supports growing companies."

As alluded to by Mr Longworth, Moody's, the rating agency, downgraded the UK from its long-standing AAA rating one notch to AA1, stating that growth in the UK would *"remain sluggish over the next few years."*

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

Many factors at play

The equity markets had a relatively quiet month with the FTSE100 shrugging off the downgrade of the UK credit rating by Moody's, ending the month on 6,325.9, up a marginal 0.6%. This index is now only 3.6% below its long-term trend.

The wider FTSE250 fared slightly worse, closing February at 13,704, down 1.03% from its January close. Across the pond the Dow Jones continued in bullish mood finishing on 14,054.49, up 1.4%, and the Nasdaq on 3,160.19, little changed on the month.

On the negative side, the inconclusive Italian general election results renewed concerns over eurozone political and economic stability. This was reflected in the Eurostoxx50 index falling nearly 5% on the month to close at 2,616.65. Meanwhile, in Japan, following the election of new Prime Minister Shinzo Abe, the Nikkei has enjoyed its longest sequence of weekly gains since 1959, rising by 18.7% to 11,559.36 since he was elected in December last year. At the same time the Yen currency has devalued by 20%. These two factors combined will greatly enhance Japan's market competitiveness.

The currency markets also saw some volatility. Partly as a result of the UK losing its AAA rating from Moody's, sterling fell to $1.51, its lowest since August 2012 against the US dollar, and to €1.16 against the Euro, down 0.6% on the month. At this level sterling has fallen by 7.9% against the greenback and 6% against the Euro since the start of 2013. The US dollar dipped against the Euro finishing the month at $1.30.

On the commodity front, Oil mercifully dipped a little, with the Brent Crude benchmark closing February on $111.87, down 3.18% on the previous month, and gold also dipping to $1,581.30 a troy ounce, which is a 5% fall in the month.

Construction sector activity improves

Q4 2012 saw construction output in the UK (not including Northern Ireland) grow by 0.9%, which was higher than had been anticipated, according to the Office for National Statistics (ONS).

Figures better than expected

Their previous forecast, which had been used to estimate Gross Domestic Product (GDP) in Q4 of 2012, had been for growth of only 0.3% in the sector.

Thanks to growth in infrastructure projects and private housing, the results marked the first improvement in construction output since Q2 2011. However, this increase was countered by a reduction in new public non-housing activity and a reduction of housing repair and maintenance work.

The ONS estimated that new work grew by 1.6%, with repair and maintenance work falling by 0.3% against Q3 2012.

Whilst welcome news, as a decline in the construction sector was a major factor in the UK falling back into recession in early 2012, these latest encouraging figures did not impact on the ONS's final GDP figure of -0.3% for the period.

UK unemployment continues to fall

In further encouraging economic news, the Office for National Statistics (ONS) announced in mid February that UK unemployment fell again between October and December 2012, by 14,000 to 2.5 million, and that the number of people in employment rose to its highest level ever recorded.

The unemployment rate in the UK now stands at 7.8%, a reduction of 0.1% from the previously reported quarter.

The number of people now in employment was 29.7m, an increase of 154,000. 73% of these were in full-time employment and 27% were in part-time positions. This data indicates that over 580,000 more people are in employment than a year earlier.

Unfortunately, youth unemployment (those aged between 16-24) continued to rise, by 17,000 to 974,000, which represents a rate of 20.8%, up from the previously reported 20.5% in the three months to November 2012.

More good news on job front

Martina Milburn of the Prince's Trust, a charity founded by Prince Charles and dedicated to getting youth into employment, commented: *"It is alarming to see that youth unemployment is back on the rise. It's now four years since the start of the recession and many young people have been left with nothing but a four year gap on their CV."*

Whilst confounding economists, the positive overall employment figures belie the still moribund economy and the fact that average earnings growth, at 1.4% pa, still remains below the CPI inflation rate of 2.7%. Commenting on this, the ONS said: *"there continues to be a cut in the real value of pay."*

The Work and Pensions Secretary, Ian Duncan Smith, had this to say on the latest positive figures: *"Economically inactive people who are not available for work, that's now at the lowest level since the early nineties.*

"No-one is saying this is easy, but if you were in France or Spain or Greece... you would look at these figures and say I wish I was in that position."

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