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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

The important services sector continues to flourish

In January, the closely followed Purchasing Managers Index (PMI) for the UK's services sector, compiled by the Markit/CIPS index (CIPS), was set at 55.6, a fraction higher than the 55.5 recorded in December. Any figure above 50 indicates that output in the sector is expanding. The services sector is by far the biggest element of the UK's economy, accounting for over 75% of the nation's Gross Domestic Product (GDP).



Three main business sectors record growth

Further reinforcing the good news surrounding the UK economy, earlier in the month CIPS reported the construction sector at 55.0 and the manufacturing sector at 52.9.

Commenting on these results Chris Williamson, the Chief Economist of CIPS said: "The three PMI surveys for January collectively point to a slight upturn in the rate of economic growth, consistent with GDP rising at a quarterly rate of 0.6% in the first quarter, up from 0.5% in the fourth quarter (of 2015), if current levels are sustained."

However, he went on to caution that: "cracks are beginning to appear in the country's resilience to the various headwinds."

"Worries about a Chinese 'hard landing', financial market jitters, higher interest rates in the US, more austerity at home and the possibility of 'Brexit' and EU tensions have collectively pushed the business mood in the dominant service sector to its darkest for three years."

On a more positive note, in early January, the National Institute of Economic and Social Research (NIESR) predicted that the UK economy would grow by 2.3% in 2016. This forecast is unchanged from their previous estimate published in November.

UK growth forecast cut by the Bank of England

According to the Bank of England's (BoE) latest forecast, as reported in their 'Inflation Report' (IR) released in early February, economic growth in the UK for 2016 will be reduced to 2.2%, a fall from their November forecast of 2.5% growth.

At the same time, the IR downgraded its growth forecast for 2017 to 2.3% from its previous forecast, made in November 2015, of 2.6%.

UK average weekly wage growth forecasts were also downgraded, as the BoE now expects such growth to be 3% in 2016, down from its previous forecast of 3.75%. The report stated that it had: "eased significantly more" than anticipated. The Bank now believes that it will not be until 2018 that average weekly earnings will increase to the levels seen prior to the financial crisis.

At a recent conference the Governor of the BoE, Mark Carney, stated that there were some positive signs for the UK economy, including, "Sterling has fallen 3.5% since November. It's the largest decline between inflation reports since the crisis." Any fall in the exchange rate of sterling against our trading partners' currencies makes UK exports cheaper and should, therefore, boost our competitiveness in the global market place.

The BoE also released the minutes of its latest Monetary Policy Committee (MPC), which sets interest rates. This disclosed that they voted unanimously 9-0 to hold interest rates at their historically low rate of 0.5%. It was interesting to note here that one member of the MPC, Ian McCafferty, who had previously been considered a Hawk by voting to raise interest rates in their August meeting, this time voted for no change.



Disappointing forecasts from the BoE

Markets: (Data compiled by The Outsourced Marketing Department)

Equity markets had a torrid February, with most global commodity prices continuing to fall, a failure to address the glut in oil production and the UK's decision to officially call the referendum on its membership of the European Union, all conspiring to unsettle the markets.

Here in the UK, the FTSE100 had at one point (Feb 11th) fallen by 9% to 5,537.0, only to recover and actually finish February higher at 6,097.10, to show a meagre rise of 0.22%. The wider FTSE250 followed suit, registering a modest rise of 0.7% to end February at 16,603.1. However, the junior AIM market failed to recover its earlier losses closing at 692.90, for an equally modest decline of 0.12%.

Across the pond the Dow Jones index closely followed the global trend, suffering intra-month losses, but regaining late ground to finish at 16,516.5, a small rise of 0.3%. The NASDAQ, heavily influenced by technology stocks, fared worse, losing 56 points to 4,557.95, so ending 1.21% lower.

Mainland Europe suffered, as economic woes continued with the Eurozone flirting with renewed recession, as inflation there turned negative. The Eurostoxx50 lost just short of 100 points to 2,945.75 a fall of 3.26%.

In Japan, the Nikkei255 index saw the worst falls, losing 8.51% to 16,026.76, as the continuing 'Abenomics' of fiscal stimulus, failed to rejuvenate the stagnant domestic economy.

As a direct result of the impending UK referendum of leaving the EU, Sterling was sold off, falling 2.8% against the US Dollar to \$1.39 and saw a larger fall



Multiple factors at work

of 3.79% against the Euro to end the month at €1.27. At the same time, the Euro managed to hold its ground against the Greenback remaining at \$1.08.

Gold had a good month, as its safe-haven status attracted buyers, with the metal rising by 10.45% over the month, to close at \$1,234.9 a troy ounce.

Meanwhile, 'Black Gold' – oil – again saw volatile markets, with uncertainty around global production levels remaining. The Brent Crude benchmark price did manage to rise though by 2.03% to \$36.64 a barrel.

UK's Q4 2015 economic growth confirmed at 0.5%

Fourth quarter economic growth in the UK was confirmed in February as being 0.5%, helped by steady growth in the services sector, which grew by 0.7% during the period. However, the important production sector (which includes heavy industry and manufacturing) saw a contraction of 0.5%. This contraction together with a decline in overall net trade, countered these results, dragging the final results down.

Overall, therefore, according to the Office for National Statistics (ONS), the UK economy grew by 2.2% through the whole of 2015. Whilst this reflected the smallest growth rate seen since 2012, it should be emphasised that the UK is still one of the most robust and fastest growing economies of the developed nations.

This dichotomy in sector growth was emphasised by the Chancellor of the Exchequer, George Osborne, who in January this year was reported to have said the UK economy was still likely to see a "dangerous cocktail" of economic risks in 2016. These significant challenges include tension in the Middle East, low commodity prices and slowing growth in China, weighing on global confidence.

The fourth quarter of 2015 represented the 12th consecutive quarter of growth here in the UK. Prior to this between 2009 and 2012 the UK showed erratic quarterly growth. This prompted Joe Grice, the Chief Economist of the ONS, to state: "Once again, the buoyancy of the services sector has offset the relative sluggishness of the rest of the UK economy."

Meanwhile, the International Monetary Fund (IMF), based in Washington, USA and headed by Christine Lagarde, warned that although the UK's economy has been "strong", the forthcoming referendum on the UK's continued membership of the European Union, now scheduled for June 23rd, brought "risk and uncertainty" to the global economy as a whole, which was already "highly vulnerable to adverse shocks."

Improvement in household spending power

The latest figures released from the Office for National Statistics (ONS) reveal that the typical level of spending power, or disposable income, for the average UK household in 2014-15 was £25,700. This figure is £1,500 higher than the low point seen in 2012-13. This marks a milestone from the hit taken by disposable income levels seen during the financial crisis.

This good news was compounded for pensioners who have been in receipt of the state pension, as the triple lock promise from the Government, whereby the state pension is guaranteed to rise each April by the highest of inflation, average earnings, or 2.5%, has seen the average pensioners household income rise by 7.7% or £1,500 between 2007-8 (the start of the financial crisis) and 2014-15.

However, by comparison, those people in employment have not been quite as lucky as they have seen their household disposable income rise by only 3.1%, or £900, over the same period.

Commenting on these statistics, the Chief Economist of the think tank, Resolution Foundation, was reported to have said: "Strong jobs growth and ultra-low inflation have finally pushed living standards back above where they were before the financial crisis. But the downturn has been felt very differently between generations, and across the UK.

"This generational divide opened up well before the financial crisis landed. As a result, typical working age families are no better off today than they were a decade ago, while typical pensioner incomes are 15% higher.

"This divide is unlikely to widen in the coming years, but nor do we see any sign of narrowing. By 2020, pensioner incomes are set to be over a third higher than they were at the turn of the century – more than double the increase experienced by working-age households."

It is important always to seek professional advice before making any decision regarding your finances. If you would like any assistance, please contact us.

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