Monthly

Economic Review

Provident Solutions

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Financial Lifestyle Planners

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Economic review of: January 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

Office of Fair Trading gives fuel industry a clean bill of health

Prices are fair says OFT

In a controversial report, the Office of Fair Trading (OFT) said that motorists and hauliers are paying fair fuel prices in the UK. Their 6-week study of the £32bn petrol and diesel market concluded that little action was needed.

They were quoted as saying: *"The evidence gathered by the OFT suggests that, at national level, competition is working well in the UK road fuel sector."*

The OFT also stated that they could find little evidence that both diesel and petrol prices rose quickly when crude prices rose but took longer to fall when crude prices fell.

Clive Maxwell, the Chief Executive of the OFT went on to add: *"We recognise that there has been widespread mistrust in how this market is operating, however, our analysis suggests that competition is working well, and rises in pump prices over the last decade or so have largely been down to increases in tax and the cost of crude oil."*

They did, however, question the prices posted for fuel at motorway petrol stations and recommended that motorists were offered advance warning, via new road signs, of the prices posted, ahead of each service area.

The response to this report from the consumer groups was less than enthusiastic with the RAC Foundation saying that it gave *"Little comfort"* to motorists and the haulage industry, while the Petrol Retailers' Association (PRA) and FairFuelUK were equally scathing.

The independent fuel retailers stated that, in their opinion, the major oil companies and the supermarkets were both using their scale to offer themselves an unfair advantage. This was repudiated by the findings of the OFT.

The PRA responded through Brian Madderson, who said these findings were: *"a grave disappointment to independent retailers."*

He added: *"This is the sort of thing that the OFT and the establishment have done many times before.*

"They have failed to take on the big players in the market - the oil companies, the supermarkets - and have left the smaller independent businesses to their fate."

No change on inflation front

Unchanged for three months

Whilst stubbornly remaining above the Bank of England's target level of 2%, which has been the case since November 2009, the UK Consumer Prices Index (CPI) remained at 2.7% in December for the third month in a row.

Figures released by the Office for National Statistics (ONS) cited an increase in both gas and electricity prices as the culprit, with gas rising by 3.9% and electricity by 5.2% compared to the same month in 2011. Also non-alcoholic drink and food prices rose by 3.8%. However, these rises were offset by a fall in air travel costs, down by 6.8%, and motor fuel, which fell by 0.2%.

Commenting on these figures, Phil Gooding, of the ONS was quoted as saying: *"By far the largest upward effect comes from domestic gas and electricity. Here we saw the majority of the pre-announced price increases coming into the index for December."*

Responding to the disappointing data, the UK Treasury pointed out that inflation has nearly halved from its recent peak of 5.2% and that the government has helped households by increasing tax-free personal allowances and stopping the planned fuel duty increase that had been expected in January.

Meanwhile, the Retail Prices Index (RPI), which includes housing costs, increased slightly to 3.1% from its previous level of 3%.

Compounding the effect this inflation has on the average household, pay growth remains stunted, as this is the fourth year in a row that the growth in pay has remained below the headline inflation rate.

Markets: (Data compiled by The Outsourced Marketing Department)

January saw a global recovery in equities, with the FTSE 100 seeing its best level for nearly four-and-a-half years, closing at 6,276.9, up 6.43% since the New Year and now only 4.19% under its long-term trend. The FTSE 250 was more impressive, rising 11.9% to finish at 13,847.1.

The Eurostoxx50 improved by 4.3%, closing at 2,749.27, whilst the FTSE All-World index flirted with its highest level since 2008, we also saw Asian markets improve. Investor sentiment remained bullish in the UK, USA, China, and even in Germany, where recently the eurozone crisis had dampened market enthusiasm. With the Euro currency now trading at around $1.37, its highest level since November 2011, sentiment has dramatically improved.

Equities shine in New Year

Wall Street saw the Dow Jones end the month at 13,860.58, up 5.77% and the S&P 500 reaching a five-year high, with many of the constituent companies reporting better than expected earnings data.

With ultra-low interest rates continuing in the USA, Europe and Japan, fuelling the risk appetite of sophisticated investors, the more cautious players may be encouraged to join the party.

Indeed the Tokyo market saw the Nikkei rise by 7.15% to end January at 11,138.66, and reach a near three-year high.

The currencies markets saw UK Sterling at $1.59 against the greenback and lower at €1.17 against the Euro. The Euro itself was worth $1.37 up 3.41% in the month and sitting at a fourteen month high.

Commodities were in demand with the Brent Crude benchmark for oil rising 4% to $115.55 and elsewhere copper rising 1.2%.

Gold, however, moved little in the month, finishing at $1,664.63, off 0.67%.

House sales and mortgage availability rise

The UK housing market saw an increase in sales in late 2012, boosted by a strong increase in mortgage availability, enabling the number of first-time buyers to rise by 8% in November, to 21,700.

Mortgage funds available

Reporting on these numbers, the Council of Mortgage Lenders (CML) also stated that the total level of new mortgages in November was up by 6%, to 52,700 buyers. This is an increase of 13% on the previous year and the highest number reported in a November since 2007.

Paul Smee, a director of the CML said: *"Encouraging activity in the first-time buyer sector in November contributed to an uplift in house purchase lending, suggesting that the underlying trend for year-on-year increases should continue."*

He went on to add: *"We expect the Funding for Lending scheme to continue to encourage a downward drift in interest rates. This may prompt an increase in remortgage activity as borrowers seek to take advantage of lower rates."*

Reinforcing this bullish sentiment, Barratt, one of the UK's largest housebuilders, reported that their order book for 2012 was up 35% from the previous year and that: *"Whilst the availability of mortgage finance remains the key constraint to industry growth, we have started to see some improvements coming through.*

"Expectations are that mortgage lending should increase in 2013, supported by the Bank of England's Funding for Lending Scheme."

Meanwhile, the Royal Institution of Chartered Surveyors (RICS) stated that, among those of their members who also operate as estate agents, more expect their sales to increase in the first quarter of 2013 than expect them to fall.

Unemployment falls again in the UK to 2.49 million

Unemployment in the UK fell by 37,000 in the three months to November 2012, according to the latest statistics released by the Office for National Statistics (ONS). This means that the jobless total stood at 2.49 million. Representing a fall of 7.7% in the period, unemployment was at its lowest level for 18 months.

Fewer jobless reported

As always, there was wide variation between the regions, with the North East reporting a jobless rate of 9.1%, whilst the South West showed only 5.5% unemployed.

The ONS also report that there were 494,000 job vacancies, being the highest number recorded since 2008.

At the same time, they reported that there were 29.7 million people in employment, which itself is a record high.

However, youth unemployment (those aged between 16-24 years) rose slightly for the first time since last summer, with 957,000 jobless, an increase of 1,000.

Commenting on these figures, Mark Beatson, chief economist of the Chartered Institute of Personnel and Development (CIPD) said this was: *"a continuing cause of concern."*

"The number of unemployed 18-24 year olds has increased whereas unemployment in age groups 25-64 has fallen. If this trend continues we risk a permanent scar on the labour market,"

He went on to add: *"It is in employers' interests to build their future skills base by recruiting the next generation of workers."*

Many economic commentators remain baffled by the fact that the number of unemployed continues to fall, even though the UK's economy has been very sluggish. They expected to see Q4's GDP figures record a contraction and ONS data duly obliged, showing a 0.3% dip.

A caveat to these encouraging figures is the fact that we have seen a number of high street retailers go to the wall in Q1 2013; with Comet, Jessops, Blockbuster and HMV entering administration, with the inevitable large-scale job losses to come in the short term.

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