Monthly

# Economic Review

Provident Solutions
Wealth Creation & Wealth Management
Financial Lifestyle Planners

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## Economic review of: January 2014

**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*

### Best UK growth since 2007

*Best performance since 2007*

The Office for National Statistics (ONS) reported that the UK economy grew by 1.9% in 2013, which is its strongest performance since 2007, just before the economic crisis hit the global economies. This is an improvement on the revised forecast for the economy made by the independent Office for Budget Responsibility (OBR), which in December raised its forecast for 2013 by 0.8% to 1.4%. The OBR has also forecast growth for 2014 at 2.4%. The again revised UK forecast made by the International Monetary Fund was also raised for 2014 from 1.9% to 2.4%.

Whilst very encouraging news, the fourth quarter of 2013 saw output fall to 0.7%, down from the 0.8% recorded in the previous quarter. Gross Domestic Product (GDP), however, remains 1.3% below its level reached in the first quarter of 2008.

The Chief Economist of the ONS, Joe Grice, commenting on these figures, said: *"We've seen growth in most parts of the economy."*

The service sector, which represents about 75% of the economy, rose by 0.8% in the fourth quarter and manufacturing grew by 0.9%. On the flip side, industrial production dipped slightly from 0.8% to 0.7%. This was mainly due to a fall in oil and gas output from the North Sea. Surprisingly, given the recent resurgence in the housing market, thanks to the Government's Help to Buy initiative, construction, which represents approximately 8% of GDP, also fell slightly by 0.3%.

As these broadly encouraging figures appear to endorse the coalition Government's austerity policy and commitment to reducing the budget deficit, George Osborne, the Chancellor of the Exchequer, was quoted as saying: *"These numbers are a boost for the economic security of hard-working people. It is more evidence that our long-term economic plan is working.*

*"But the job is not done, and it is clear that the biggest risk now to the recovery would be abandoning the plan that's delivering jobs and a brighter economic future."*

Echoing these comments, the Director General of the British Chambers of Commerce added: *"These growth figures confirm what we've been hearing for some time.*

*"Businesses across Britain are growing ever more bullish about their prospects. Our surveys now consistently show business confidence levels not seen for decades."*

### Residential property prices continue to rise

*Commentators fear a price bubble*

In the latest figures from the Office for National Statistics (ONS), released in January 2014, they stated that UK house prices increased by 5.4% in the 12 months to November 2013.

Regionally, England saw an increase of 5.6%, Scotland 2.5%, Wales 5.4% and Northern Ireland 3.3%.

As usual, London led the field with house prices there increasing by 11.6%, more than double the UK average. The average price for a London property now stands at £396,646. A major factor here is the increasing number of foreign buyers entering the market, looking for a safe haven for their assets. The South East recorded price gains of 4.5% and the West Midlands 4.4%.

If you strip out the London and South East data, other UK house prices increased by 3.1% on average.

However, the North East region saw an annual decline in property prices of 1.6%. The average price of a property here is only £96,227.

First-time buyers, returning to the market thanks in part to the coalition Government's Help to Buy initiative, saw prices increase by 6.4% from a year earlier, whilst existing owners moving house saw prices rise by 5.1%.

The ONS data is compiled using the Regulated Mortgage Survey by the Council of Mortgage Lenders (CML), whose members represent the vast majority of mortgage lenders across the United Kingdom.

Separately, the CML announced in January that November 2013 saw gross mortgage lending amounting to £17bn, down 4% from the previous month, and that 2013 should see a total figure of £170bn lent to house buyers. They went on to add that in 2014 they expect *"lending to rise in line with better economic conditions."*

Other encouraging statistics regarding the property market state that repossessions, across the UK, have declined from a year earlier.

This data has initiated a debate in Government about the possibility of an unwanted housing market bubble being created, such as helped to exacerbate the financial recession from 2007.

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

*The US Fed spoils the party*

Late in January, the US Fed's confirmation of its continuing tapering of quantitative easing and subsequent currency turmoil in the emerging markets, hit global equities as Argentina abandoned support for its currency against the US Dollar, Turkey hiked interest rates by 4.5% to 12% and South Africa increasing their interest rates by 50 basis points to 5.5%, all in defence of their currencies. Alas to no avail, as investor sentiment in their equity markets quickly turned negative.

Fall-out was also seen in the UK with the FTSE100 losing 4.26% over 5 days at one stage to close the month down 3.54% at 6,510.4. The FTSE250 followed suit, dipping 1.64% to 15,674.4. Perversely, the junior AIM market bucked the trend, gaining 1.29% at 859.03.

Across the pond, the Dow Jones also suffered, closing the month on 15,698.85, down 5.3%, with the Nasdaq likewise off 1.74% at 4,103.88.

There was no respite in Europe either with the Eurostoxx 50 losing 3.06% to finish at 3,013.96, while in Japan the Nikkei 225 fell even further, closing the month at 14,914.53, down 8.45%.

The major currencies were relatively stable with Sterling remaining at €1.21 against the Euro and off a little (1.2%) against the US dollar at $1.64. Meanwhile the Euro itself weakened 1.46% against the US dollar to close January at $1.35.

On the positive side Oil, as measured by the Brent Crude benchmark fell by 4.33% to $106.40 a barrel and Gold, which had suffered three months of losses, gained 1.95% in January to end at $1,244.05 an ounce.

## Bank of England finally meets its target

*CPI figures tick the box*

Since November 2009, UK inflation, as measured by the Consumer Prices Index (CPI), had not dipped below the targeted figure of 2%. However, in December 2013 it finally did.

The Office for National Statistics (ONS) reported in January that the CPI figure fell to 2% from the previous level of 2.1%. Whilst only a 0.1% decline, the significance of meeting the target set the Bank of England (BoE) by the Government cannot be overstated.

The BoE had come under increasing criticism for appearing to neglect the inflation figures, especially back in the autumn of 2011, when inflation hit 5%.

It will also ease pressure on the BoE to raise interest rates, because of the recent improvement in the overall economic climate.

The Prime Minister, Dave Cameron, commenting on this milestone, commented: *"It's welcome news that inflation is down and on target. As the economy grows and jobs are created this means more security for hard-working people."*

A major factor in the dip in CPI was the slower increases in the price of food and non-alcoholic drinks, recording their smallest increase since 2006. Discounts offered in the retail sector just prior to Christmas also helped the cause.

However, increases in petrol, gas and electricity prices tempered the overall fall in the figures.

The wider and more closely followed Retail Prices Index (RPI) unfortunately increased by a similar amount, to 2.7% (2.6%), slightly dampening the euphoria.

Whilst very welcome news, the CPI still remains stubbornly ahead of average weekly earnings (excluding bonuses), which only increased by 0.8%. Therefore, the coalition Government remains under some pressure to reduce the overall cost of living in real terms.

This recent easing of consumer price pressure will help their case and, helpfully, many economists now believe that, even with the economy seeing strong signs of recovery, the CPI inflation figure should remain close to, or below, the 2% target level for some time to come.

## *"significant fall"* in UK unemployment announced


*Best figures for 17 years*

The greatest three-month fall in the number of unemployed for 17 years was announced in mid January, with the Office for National Statistics (ONS) stating that the country's unemployment rate had fallen to 7.1%, a fall of 176,000 people, to 2.32 million. This is the lowest rate recorded since early 2009.

Those unemployed and seeking Jobseeker's Allowance fell by 24,000 to 1.25 million in December.

Youth unemployment (those aged between 16-24 years old) also fell by 39,000 in the three months to a total of 920,000.

Even more encouragingly, the total number of people now in employment across the UK climbed by 280,000, to 30.15 million.

This unemployment rate of 7.1% is very important, as Mark Carney, the Governor of the Bank of England (BoE), had stated in his previous *"forward guidance"* announcement five months ago, that they may consider raising interest rates from their historic low of 0.5%, if the unemployment rate dips below 7%.

At that time this target of 7% was not expected to be reached until 2016, so it may well be necessary for the BoE to reconsider and clarify their position in this regard.

Not only the BoE, but many economists were also surprised by the strength of the labour market, as it became clear that the UK economy is creating jobs at a much higher rate than was predicted.

Commenting on this very encouraging news, the Employment Minister, Esther McVey, said: *"Creating jobs and getting people into employment are central to our economic plan to build a stronger, more competitive economy, so it is very encouraging news that we've seen a record-breaking rise in employment over the last three months."*

These excellent figures, together with other encouraging data regarding UK inflation (CPI), down to 2% and the UK Government's borrowing down by £2.1 billion from a year earlier, boosted Sterling. It rose to $1.65 against the greenback and €1.22 against the Euro at the time of writing.

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