ECONOMICREVIEW
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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

Provident Solutions
Wealth Creation & Wealth Management
Financial Lifestyle Planners

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

Fastest economic growth since 2007

The UK saw its fastest economic growth since 2007, as in Q4 2014 the economy grew by 0.5%, according to the latest figures from the Office for National Statistics (ONS).

Although Q4 saw a slowdown from the 0.7% recorded in Q3, the ONS reported the country's Gross Domestic Product (GDP) grew by 2.6%, on an annual basis, which was up from the 1.7% reported in 2013.

UK on course for a good 2015

Explaining this quarterly slow-down the ONS's Chief Economist, Joe Grice, was quoted as saying it is *"too early to say"* if this slowdown would continue in the short term. He went on to add: *"The dominant services sector remains buoyant while the contraction has taken place in industries like construction, mining and energy supply, which can be erratic."*

In more detail, the services sector saw growth of 0.8% in Q4, whilst the construction industry recorded a reduction in output of 1.8%. It was this latter figure that damaged the overall outcome and did come as something of a surprise to many of the economic pundits who follow these figures closely.

At the same time, the manufacturing sector was flat, showing only marginal growth of 0.1%, which was its worst economic performance since early 2013. Energy supply also recorded a fall of 2.8%, given the dramatic fall in the price of oil experienced over the last three months. Both construction and energy are renowned for being volatile sectors, however.

Despite the above caveats, the UK economy is amongst the best-performing of all the world's major economies in 2014 and this is endorsed by the International Monetary Fund (IMF), who have independently forecast UK economic growth of 2.7% in 2015.

Some other analysts have been even more bullish, with Samuel Tombs, of Capital Economics, stating; *"With the recent halving of oil prices providing a timely boost to households' discretionary spending power, credit still becoming cheaper and pay growth on an improving trend…the best days of the UK's recovery may still lie ahead."*

All eyes on Greece

The victory of Alexis Tsipras' left-wing, anti-austerity, anti-bail-out party, Syriza, in this month's Greek elections, has sent shock waves through the eurozone.

Whilst not managing an outright majority, their subsequent coalition with, strangely enough, the radically right-wing ANEL (Independent Greeks) party has strengthened their hand in demanding that the so-called 'Troika' of the European Union, the European Central Bank and the international Monetary Fund writes off half of the country's debt. Albeit right-wing, ANEL also adopts a staunchly anti-austerity, anti bail-out political philosophy.

Greece received a bail-out of €110bn in 2010, on the proviso that it undertook deep cuts in its public services and continued on a severe austerity programme. It received a further bail-out of €130bn from the 'Troika' in 2012. Its current national debt is standing at close to 175% of Gross Domestic Product and the subsequent austerity programme has caused widespread social unrest and massive unemployment, especially in the 18 to 24-year-old group.

At present, the country hopes to receive a further €4.3bn from the 'Troika' in March, but will require an additional €24bn to see it through the 2015-16 financial year.

The markets' immediate response to this situation was to sell-off the Euro currency, as it fell as low as $1.12 against the US Dollar and to €1.34 against Sterling, on fears that Greece may be forced to exit the currency group and re-introduce the Drachma currency – the so-called 'Grexit' option.

Mr Tsipras has publicly denied this possibility, but the rhetoric used remains a threat to the stability of the whole eurozone, as other countries suffering similar austerity, unemployment, and sovereign indebtedness, such as Italy and Spain, may consider their options in this regard and so further weaken the cohesion of the Euro currency block.

Who will blink first?

Markets: (Data compiled by The Outsourced Marketing Department)

January saw continuing volatility in the markets, as the success of the hard left-wing Syriza party (whose manifesto included negotiating national debt forgiveness and bringing an end to austerity) in the Greek elections threw up fresh fears for the stability of the Euro currency and consequential fiscal and political unrest.

Here in the UK the FTSE100 had a roller-coaster ride, losing 3.1% at one stage to 6,366.5, but recovering later in the month to close up 2.79% at 6,749.4. The wider FTSE250 also gained 1.37%, to finish January at 16,305.77. AIM, the junior market, did not fare so well, losing 1.66% to 690.34.

Surprisingly, given the political unrest, the Eurostoxx50 put on an impressive 6.23% to 3,342.48, whilst the Japanese Nikkei225 continued its bull run to 17,674.39, recording a monthly gain of 1.28% and 12.8% over the past three months.

Despite encouraging economic data across the pond the US markets saw overall declines. The Dow Jones lost 3.69% to end on 17,164.95 and the technology-based Nasdaq dipped to 4,635.24 for a 2.13% loss on the month.

The currency markets were still dominated by the across-the-board strengthening of the US Dollar. It rose to $1.51 against Sterling, a gain of 3.2% and to $1.13 against the Euro, a gain of 6.6%, mainly as a direct result of the Greek elections and fears for the stability of the Euro currency. UK Sterling also improved strongly against the Euro, rising by 3.8% to €1.34.

Oil continued to fall dramatically in price, with the benchmark Brent Crude price falling a further $4 in January alone to $52.99 a barrel. This represents a fall of over 7.7% for the month and 38% over the past three months.

Gold, the usual safe haven in times of unrest, saw demand as it closed January at $1,273.24 an ounce for a rise of 6.19% since the end of 2014.

Greek politics concentrate the mind

Joint record low for UK inflation

The Consumer Prices Index (CPI), the main measure of inflation in the economy, fell to a joint record low (last seen in May 2000) in December. It now stands at 0.5%, sharply down from last month's level of 1%. At the same time the wider inflation measure, the Retail Prices Index, also fell to 1.6% from its previous level of 2%. The RPI rate is used by the Government to set annual increases in state pension payments, welfare benefits, increases in rail fares, and other consumer related prices.

These figures, released by the Office for National Statistics in mid January, mean that interest rates will most likely remain at their historically low level for some considerable time.

Mark Carney, the Governor of the Bank of England (BoE) confirmed this as he said interest rates will remain at their present low level for some time to come; however, he did add that he expected rates to: *"move up over the course of the next couple of years"*. Such guidance may be revised if conditions change.

Lower oil price pushes down inflation rate

His comments were reinforced by a statement from the Director of Economics, at the Confederation of British Industry, Rain Newton-Smith, who was quoted as saying: *"With falling inflation rates and subdued earnings growth, we do not see the first rise in interest rates happening any time soon."*

As good as these figures are, there is a sting in the tail for the Governor, as any fall in inflation below 1% (that is 1% lower than the Government's target CPI rate of 2%), means that he will have to write a letter of explanation to the Chancellor of the Exchequer, George Osborne.

So this is all good news for the UK economy. The Chief Secretary to the Treasury, Danny Alexander, commented: *"Inflation is 0.5% - lowest level in modern times. Welcome news with family budgets going further and economic recovery starting to be widely felt."*

Unemployment continues to fall

UK unemployment continued on its downward trend in the September to November period of 2014, seeing 58,000 fewer people out of work, according to the latest data from the Office for National Statistics (ONS).

The unemployment rate has now fallen to 5.8%, which represents 1.91 million people. There are now, however, 30.8 million people in work.

The number of people claiming Jobseeker's Allowance also fell by 29,700 to 867,000; this is the 26th consecutive month that this claimant count has fallen.

A closely watched statistic is the number of jobless 16 to 24-year-olds. This measure was less encouraging, as it increased by 30,000 to 764,000. This is the first quarterly rise seen since the June to August quarter of 2013.

Regionally, the ONS saw the east of England and the south-west having the highest rate of employment at 76.6%, whilst the lowest rate of employment was recorded in Wales, at 68.7%. The region with the highest level of unemployment was in the north-east of England at 8.5%, with the lowest level of unemployment, 4.4%, recorded in the south-west.

Commenting on these findings, Iain Duncan Smith, the Work and Pensions Secretary, said: *"We now have unemployment falling below 6% for the first time, which is a really, really important moment to mark. Jobs are being created and salaries are rising, meaning that increasing numbers of people are feeling the security and hope for the future."*

Here he was referring to the average earnings figures, also released by the ONS, which showed that average earnings, excluding bonuses, were 1.8% higher than the same time last year. Earnings, including bonuses, showed an increase of 1.7% over the same period.

Given that the Consumer Prices Index (CPI) has now fallen to 0.5% (See Inflation article), these figures represent the second consecutive month that earnings growth has been above the inflation rate.