ECONOMICREVIEW
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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

GDP rose 0.5% in Q4 2015 but 2016 growth may be slowing.

The UK economy, as measured by the Gross Domestic Product (GDP), rose by 0.5% in the fourth quarter of 2015. This is an improvement on the 0.4% growth recorded in Q3; therefore, the calendar year saw overall economic growth of 2.2%, according to the latest data from the Office for National Statistics (ONS).

Signs of economic growth

The final quarter of the year saw a 1.9% GDP rise from the same period in 2014, against the 2.1% rise seen in the third quarter.

Whilst this level of annual growth is welcomed, particularly when compared with other OECD nations, it is below the 2.9% achieved in 2014 and represents the slowest annual rate of growth for three years.

However, as such, the UK's economy is still one of the fastest growing of the developed countries and is in line with forecasts from the International Monetary Fund (IMF), who had predicted UK growth of 2.2% for 2015 and the ensuing two years. The IMF also stated that the robust economic growth seen over the last two years would not be able to be maintained until the wider global economy improved.

As a caveat to this good news, Chris Williamson, of the respected research firm Markit, cautioned: *"Uncertainty over 'Brexit', weak overseas growth and financial market volatility are all creating an unsettling business environment and point to downside risks to the economy in 2016.*

"The coming year could easily see the pace of economic growth slow further from last year's 2.2% expansion, and the chances are growing that we will see yet another year in which interest rates are left at their record low of 0.5%."

Meanwhile, immediately following the release of the ONS's latest figures, the Chancellor of the Exchequer, George Osborne, was reported as saying: *"These GDP numbers show the British economy continues to grow steadily and despite turbulence in the world economy Britain is pushing ahead."*

Oil price hits 11-year low

January 20th saw the price of oil, as measured by the Brent Crude benchmark, fall to a new 11-year low (last seen on July 1st 2004) of $28.14 a barrel, the price has since recovered slightly.

Market analysts had been monitoring the statements from the influential Organisation of the Petroleum Exporting Countries (OPEC), which declared in December that current production levels would be maintained – in effect continuing the global market over supply.

This was compounded by the recent worsening of diplomatic relations between two of the world's largest oil producers, Saudi Arabia and Iran, culminating in the severing of diplomatic relations between the two countries, as a consequence of Saudi Arabia executing Sheikh Nimr al-Nimr, a Shia cleric.

As a result of this heightened tension it is very unlikely that oil production will be reduced by either of these two, now adversaries. Therefore, Iranian oil production is likely to be expanded still further later this year as Western diplomatic sanctions against Tehran are lifted due to the accord agreed around the curtailing of Iran's nuclear programme.

At the same time, US shale gas production and increasing supply from Russia – who need to boost production to preserve their revenue streams – further increase the oversupply side.

Historically, over the past few years oil prices have been relatively stable, with the period 2010-2014 seeing average crude prices of about $110 a barrel, but since then prices have plummeted by nearly 70%, as the demand side has been reduced by a weakening global economy, especially in China, the second largest economy in the world.

Given that many countries, especially the USA, are now holding record levels of stockpiles, it is difficult to see the short-term supply situation abating.

Over supply continues in the market

Markets: (Data compiled by The Outsourced Marketing Department)

Equity markets started 2016 very much on the back foot, with continuing worries about a sluggish global economy and slowing growth seen in China. Added to this, the slump in commodity prices jittered the markets.

The FTSE100 had, at one point in January, fallen to 5,673.6, a loss of 568.7 points from December's close, before recovering a little towards the end of the month to finish on 6,083.8, for a monthly loss finally of 2.54%. The wider FTSE250 fared even worse, losing 942.1 points to 16,487.7 to record a loss of 5.41% on the month and the junior AIM market following suit, losing 6.1% to finish on 693.7.

There was no respite across the pond either, as the Dow Jones closed January at 16,466.3, a 5.5% loss and the technology based Nasdaq index finishing at 4,613.95 for a fall of 7.86%.

On the continent, the Eurostoxx50 continued its December slide, falling a further 222 points to 3,045.09 for a 6.81% decline since the turn of the year.

Likewise, in Japan the Nikkei 225 could not shake off its December decline as it too fell 7.96% in January to end the month on 17,518.3.

In the currency markets the US Dollar gained against Sterling by 2.72% to $1.43 and Sterling itself falling a similar 2.22% against the Euro to €1.32.

A bumpy start to the year

The price of oil (Brent Crude) continued to concentrate the mind of the market (see 'Oil falls to 11-year low' article), falling at one stage in the month to $28.14 a barrel, but recovering to $35.91 by month end, on speculation of an accord being brokered between Saudi Arabia and Russia to limit production.

Gold, however, was in demand rising by 4.27%, to close January at $1,118.08 a troy ounce, probably benefiting from its safe-haven status in times of market stress.

Inflation inches higher

December saw the UK inflation yardstick, the Consumer Prices Index (CPI), inch higher to 0.2%; the previous month's figure was 0.1%, and whilst still a very benign figure, it is also an 11-month high for annual CPI growth.

Whilst the prices of food, tobacco and alcohol fell, there was a steep rise in air fares, which increased by 46% in December – the highest rise seen in this element of the index for 13 years.

December usually sees a ramping up of air fares, as many people travel by air over the Christmas holidays to visit family and friends. The Office for National Statistics (ONS), who compile the data, said that it was the highest increase seen since 2002.

The ONS did add that whilst air prices are *"highly variable"* a November to December rise in prices of more than 40% is not unusual.

Although lower than in the previous month of November, the price of petrol did not fall by as much as it did in the corresponding period last year, therefore, it too contributed to the overall rise in the CPI rate.

The wider Retail Prices Index (RPI) – not a 'national statistic' – which includes housing costs, also rose by 1.2%, up from its level of 1.1% seen in November. This is, however, a more relevant figure, as the RPI figures are used to calculate annual rises in the state pension benefits and national rail ticket increases.

Once again, this continuing trend of near zero inflation – seen for the last 12 months – is expected to continue in the short-term, further diminishing the likelihood of any early interest rate rises.

11-month high for the CPI

10-year low for UK unemployment

According to the latest figures from the Office for National Statistics (ONS), unemployment in the UK hit a 10-year low in the three months to November last year. The rate fell to 5.1% which represents 1.68 million people out of work in that quarter. That is a fall of 99,000. This is now below the pre-crisis average of 5.2%.

The ONS went on to add that the employment rate hit 74%, its highest level since comparable records began in 1971. There are now 31.4 million people in work, with 23 million of those in full-time employment (a rise of 436,000) and 8.4 million in part-time work (a rise of 152,000). Of the part-time workers, 1.2 million of those would prefer full-time employment, which is a fall of 21,000 from the previous three-month period.

The good news for those in work was that average weekly earnings (AWE), including bonuses, grew by 2%, however, this was the slowest rise seen since February 2015 and was below the survey forecast from Reuters of a 2.1% rise. AWE growth excluding bonuses also slowed to 1.9%.

Given this subdued rise in AWE, Mark Carney, the Governor of the Bank of England (BoE), said the day before the ONS released its latest unemployment and AWE data that he would rule out any early rise in interest rates, as he believes that he would like to see earnings grow by 3% a year, on a sustained basis, before interest rates would need to rise.

The 'economically inactive' (those people on long-term sick leave, people caring for sick or elderly relatives and those who have given up looking for work), also fell to just under nine million, which was a fall of 93,000 and the lowest figure seen since early 2014.