Monthly

Economic Review

Provident Solutions
Wealth Creation & Wealth Management
Financial Lifestyle Planners

www.providentsolutions.co.uk

Economic review of: July 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

Chancellor Osborne confirms economy is *"on the mend"*

Positive growth seen in the economy

Good news on the UK economic front from the Office for National Statistics (ONS) who reported their first Q2 estimate on the UK economy. Based on a seasonally adjusted sample of 44% of actual data, they estimated growth of 0.6% in the second quarter of 2013. This was an improvement on the 0.3% growth reported in Q1.

The ONS said that output grew in the Services sector - by far the largest component of the economy, representing 80% of total output - by 0.6%. The Production sector also saw 0.6% growth, of which Manufacturing accounted for 0.4%, whilst Construction saw a strong rebound in activity with 0.9% growth. The Agriculture sector also saw positive growth. So a broad-based recovery was reported.

As a result of this data, the UK economy has now recouped more than half the loss of 7.2% output seen since the economic crisis of 2008-9. However, economic output still remains 3.3% below its pre-recession peak.

Welcoming the good news, the Chancellor of the Exchequer, George Osborne, said: *"These figures are better than expected. Britain is holding its nerve, we are sticking to our plan, and the British economy is on the mend - but there is still a long way to go and I know things are still tough for families."*

This encouraging economic trend comes after the Prime Minister, David Cameron, announced earlier this month that the London 2012 Olympics and Paralympic Games boosted the UK economy to the tune of £9.9bn. Following a report from the UK Trade and Investment Department (UKTI) stating that the Olympics resulted in *"additional inward investment"* of £2.5bn, 58% of which was outside London, £5.9bn of additional sales as a result of Olympic-related promotions by the Foreign Office and UKTI and £1.5bn of high-value overseas contracts.

Mortgages for first-time buyers at 5-year high

First-time buyers benefit

The Council of Mortgage Lenders (CML) has reported that loans offered to first-time buyers reached a five-and-a-half year high in May this year. This represents a 42% increase from the same month last year.

With 25,000 people taking out these loans, this is the highest number of first-time borrowers since December 2007.

Paul Smee, the Director General of the CML, was quoted as saying: *"Both the borrowing appetite of first-time buyers, and the availability of attractive mortgages for them, have improved markedly since a year ago."*

Whilst these are encouraging figures, the overall level of activity in the housing market remains at only half the level it was prior to the recent economic crisis. Another caveat to this data was the fact that May 2012 had a very low uptake of mortgages, as a result of the changes in stamp duty thresholds made in March 2012, prompting many buyers to bring forward their house purchases to take advantage of the lower tax levels at that time.

The Government's two initiatives, 'Funding for Lending Scheme' (FLS), which was launched in August 2012 and 'Help to Buy' (HTB), launched in April 2013, have been credited with helping to make funds more available for potential home buyers.

FLS has made additional funds from the Bank of England available to building societies and banks at cheaper rates, on the proviso that they in turn make these funds available to businesses and individuals.

Meanwhile, HTB has specifically helped first-time buyers, as the Government offers those buyers a 20% equity loan, provided they can raise a 5% deposit.

Not only first-time buyers benefited, however, as the number of people re-mortgaging also increased by 18.7% compared with the same time last year.

Markets: (Data compiled by The Outsourced Marketing Department)

With the more positive economic data coming out of the UK and the USA this month, together with more stable fiscal and political noises coming from Europe, the equity markets regained some, if not all, of their losses incurred in June.

Positive economic data boosts markets

The FTSE100 closing at 6,621.1 saw a 6.53% gain for the month, with the wider FTSE250 advancing 7.79% to finish at 14,873.13, whilst the junior AIM market saw a 4.33% rise to 718.87.

The FTSE100 is now only 309 points below its all-time high or 0.08% below its long-term trend, echoing investors' renewed enthusiasm for risk assets.

Over the pond there was similar positive sentiment with the Dow Jones rising by 3.96% to finish July at 15,499.54 and the NASDAQ closing at 3,626.37 for a 6.56% improvement on the month.

The European bourses followed this trend with the Eurostoxx50 gaining 6.36% to finish at 2,768.15.

Japanese sentiment was less bullish. The Nikkei225 remained stable, closing at 13,668.32 for a very modest fall of just 0.07%.

The currency markets marked time with little volatility. Sterling remained at US$1.52 against the greenback, but lost 2.56% against the Euro, closing at €1.15. The Euro itself also gained a modest 1.54% against the US Dollar finishing July on US$1.32.

On the commodity front, gold had a better month recovering 6.62% to stand at $1,324.15 an ounce.

Meanwhile black gold, oil, rose by 4.65%, with the benchmark Brent Crude price ending July at US$106.91 a barrel.

Bank of England holds back on further QE

The new Governor Mark Carney's inaugural meeting as the Chairman of the Bank of England's (BoE) Monetary Policy Committee (MPC) saw them vote 9-0 to keep their current quantitative easing (QE) programme at its existing level.

Sterling boosted by MPC meeting

However, the minutes of the July meeting also revealed that two members of the committee, Paul Fisher and David Miles, had voted in favour of expanding QE in the previous June meeting, stating that such increased stimulus was *"warranted"*.

It should also be noted that those two members, together with the previous Governor, Sir Mervyn King, had recommended an additional £25bn of QE over the last few months; whereas Mark Carney's view is that the MPC should adopt a more holistic approach to the policy tools available to them. His main driver is to boost confidence and through that, growth in the economy. To help achieve that he hopes to keep interest rates low and so encourage consumers to borrow more to boost the demand side.

With the current QE programme having already purchased £375bn of assets, primarily UK Government Gilts, the statement that QE will be curtailed, albeit temporarily, boosted the pound on the foreign exchange markets. With the prospect of monetary easing being less likely, sterling rose against the dollar to $1.5247, although it did dip a little later. This stronger sentiment for sterling was further boosted by the UK unemployment figure for the three months to May, showing that it fell by 57,000 to sit at 2.51 million or 7.8% of the labour force.

The MPC noted that whilst growth was *"weak"* there were signs that the economy was improving. Future growth will be dependent on consumer confidence. To emphasise this opinion they added: *"Growth in the second half of the year would depend in large on the behaviour of the household sector."*

Positive jobs data

In figures released in mid-July from the Office for National Statistics (ONS), comparing March-May 2013 with the previous three months, there were more people in employment and fewer unemployed people in the UK.

More people in employment

Employment was up by 16,000 to 29.71 million. This resulted in an increase in the number of people employed by 336,000 on the year. In percentage terms, 71.4% of those aged between 16-64 were in work.

Unemployment also fell by 57,000 for the quarter and by 72,000 on the year. This brought the overall figure to 2.51 million people, or 7.8%. The number of people who have been unemployed for up to twelve months also fell by 104,000, amounting to 1.59 million. However, the number of people who have been out of work for over twelve months increased by 32,000 to 915,000. This is the highest figure since 1996. Of this number 474,000 have been looking for work for over two years, itself the highest figure since 1997.

More encouragingly, the number of people who are claiming Jobseeker's Allowance (JSA) fell by 21,200 to 1.48 million. Over the year this was down by 117,700. This is the lowest number recorded since 2011. The discrepancy in these numbers is because the claimant count only covers those receiving JSA, whilst many unemployed people are either ineligible for or do not claim the JSA.

Issued by: **Provident Solutions Ltd**

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