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

Jobs stimulus from floods clear-up

A perverse result of the recent floods across many parts of the country has been a boost for the construction sector, as many more people are taken on to help flooded residents and businesses clear up after the devastation caused by the wettest January and February on record. The energy sector has also taken on additional staff to boost the workforce and ensure that power infrastructure is restored in affected areas as quickly and efficiently as possible.

Mark Cahill, the managing director of recruitment company Manpower Group, has been quoted as saying: *"At last we can confidently say that the jobs market is starting to fire on all cylinders. With over 6,000 properties flooded, and an average repair bill of £30,000-£40,000, the beneficiaries of all this extra work will be builders, who are already called in to repair homes. We could be talking about an economic gain of about £250 million to this industry alone. The UK jobs market has reached a turning point."*

The Manpower Group's report also stated that larger businesses were more optimistic about job prospects than at any time in the last ten years, with firms in the North-East and Wales being the most optimistic and only Northern Ireland returning negative data.

For those potentially affected by future flooding, there was news in the Budget of £140 million of additional funding for repair and maintenance of flood defences. As regards insurance issues facing some residents in flood zones, the Association of British Insurers recently praised progress towards implementing the proposed Flood Re scheme.

First-time buyers up 38%

The Council of Mortgage Lenders (CML) announced in March that January saw a 38% year-on-year increase the number of loans to first-time buyers. In value terms, £3.1bn was lent in January, which was a 55% increase on the previous year.

Given the current buoyancy in the property market, it was not surprising to see that the earnings/price ratio also increased, to 3.39 times gross salary. This translates as the typical first-time buyer having to utilise 19.3% of their gross income to service their mortgage.

The impact of the Government's 'Help to Buy' initiative is clearly being seen now with the average loan-to-value for this group being 82%, up from 80% in December 2013. About 95% of these buyers also opted for a fixed-rate mortgage deal.

Buy-to-let mortgages were also higher, with 15,700 loans approved, up 8% compared to the previous month and 37% higher than in January 2013. In value terms, this represented £2.1bn, an increase of 11% on the month and 40% on the year.

Looking at the bigger picture, total gross mortgage lending in January was estimated at £15.5bn. Whilst this was down 8% from December 2013, it was nearly 30% higher than the previous January's figure of £11.6bn.

Someone's ideal home

Bob Pannell, the chief economist at the CML, stated: *"Housing market indicators in the UK continue to be positive, although seasonal factors are likely to have affected activity levels. Monthly approvals for house purchase averaged 70,000 in the final quarter of 2013, the strongest for six years.*

"The Bank of England envisages that approvals may climb to 90,000 a month in the second and third quarters of 2014. This would seem to imply property transactions running at an annualised rate of one and a half million or so. We think this may be over-optimistic, given the growing anecdotal reports of a shortage of prospective sellers."

Markets: (Data compiled by The Outsourced Marketing Department)

Despite positive economic data, including lower inflation and unemployment, the UK stock market continued to be weighed down by geopolitical issues in Eastern Europe and a series of homegrown problems that confronted certain market sectors.

Insurers suffered in the wake of pension annuity reforms announced in the Budget, banks lost ground as the Government offloaded a further 7.5% stake in Lloyds Banking Group and the energy sector fell as regulator Ofgem proposed referring the major gas and electricity suppliers to the Competition and Markets Authority. At the end of March, the FTSE100 was 3.1% lower at 6598.37. Mid-cap companies also slipped, with the FTSE250 dropping 2.7% to 16,273.72. The junior AIM market was lower, too, by 4% at 850.94 at the month-end.

The mood in New York was more positive, with the Dow Jones finishing 0.8% higher, at 16,457.66, though the Nasdaq ended 2.5% down at 4,198.99 after its near-5% February gain. European bourses held up well overall despite the possible impact of the Ukraine crisis on the flow of Russian gas, with possible implications for industrial production. The Eurostoxx 50 closed a modest 0.4% higher at 3161.60. In Tokyo, the Nikkei225 made a good start to March but drifted after a mid-month correction, ending just 0.1% down at 14,827.83.

On the foreign exchanges, sterling held onto the previous month's gain against the US dollar, closing virtually unchanged at $1.67, and likewise at €1.21 against the euro. Thus the euro remained at $1.38 against the dollar. Oil prices saw limited movement in dollar terms, with Brent crude ending 1.5% down at $107.42, whilst lower UK pump prices also reflected ongoing benefit from sterling's recent strength versus the dollar, which helped trim inflation. In early March, gold was firm, passing $1,380 mid-month but falling back thereafter to end down a net 4.6% at $1,284.

FTSE indecisive post-Budget

CBI backs minimum wage rise

Vince Cable, the Business Secretary in the coalition Government, announced in mid-March that he had approved the recommendations of the Low Pay Commission and would increase the minimum wage by 19p an hour to £6.50. As current Consumer Prices Index (CPI) inflation is 1.7%, this is the first time in six years that the wage rise has been higher than the underlying rate of inflation.

To take effect from October this year, this represents an increase of 3% and will benefit up to one million workers. For young workers aged between 16 and 17, the minimum wage rate will increase by 7p an hour to £3.79, representing a 2% rise, whilst those aged between 18 and 20 will see their minimum wage rate rise by10p an hour to £5.13, again a 2% rise. Apprentices on the minimum will get a rise of 5p an hour to £2.73.

Commenting on this decision, Vince Cable said: *"The recommendations I have accepted today mean that low-paid workers will enjoy the biggest cash increase in their take-home pay since 2008. I urge businesses to consider how all staff – not just those on minimum wage – can enjoy the benefits of recovery."*

Important news for investors is that the minimum wage upgrades are not generally expected to damage business health. Katja Hall, the chief policy director at employers' group the Confederation of British Industry, said after the announcement: *"The Government's decision to accept the Low Pay Commission's recommendation of a 3% rise in the national minimum wage is a sensible one and will not put jobs at risk. This rise will strike the right balance between protecting jobs whilst ensuring those on minimum wage benefit as the economic recovery takes hold."*

All workers should share in upturn

UK service sector gains confidence

The respected and closely watched Markit/CIPS Purchasing Managers' Index (PMI), where any figure above 50 represents expansion, showed the service sector remained in positive territory at 58.2 for February. Whilst this is slightly below the 58.3 figure recorded in January, it is still clearly encouraging news.

This expansion has also seen staffing levels in the sector rising at their fastest rate since October 2013, and an increase in business investment and marketing spend.

The Markit/CIPS survey also reported that overall business confidence had risen to its highest level since September 2009. Whilst other business sectors, such as manufacturing and construction, also saw growth, the service sector is by far the biggest constituent of the UK economy, so this was welcome news.

Commenting on their findings, Markit's chief economist, Chris Williamson, said: *"Alongside vibrant growth in manufacturing and construction, the upbeat picture of the services economy points to the country enjoying another quarter of robust economic growth of approximately 0.7%.*

"There's no end in sight to the good news: with business confidence in the services economy rising further in February, growth should pick up again in March, adding conviction to the growing consensus that the economy is set for its best year of growth since 2007, with the rate easily surpassing the 1.8% expansion seen last year."