ECONOMICREVIEW
of May 2014

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

Housing market continues to surge

The Governor of the Bank of England (BoE), Mark Carney, has fired a warning shot across the bows of the housing market as house prices rise by 8% in a year, according to the Office for National Statistics (ONS).

As always, the market has very wide regional variations with London seeing price rises of 17% annually, whilst Northern Ireland only recorded rises of 0.3%. The East saw annual gains of 6.6% and the South East 6.1%.

BoE warns of overheating

If you exclude London and the South East national prices were higher by only 4.7% compared with last year, which represents an average house price of £252,000.

This escalation in prices has alarmed the BoE and, given their ability to control interest rates (which, if raised, would have a dramatic effect), they flagged a warning of over-heating in the market and said that they would study the market carefully. Whilst admitting they could do little to address the dire shortage of housing in the market place, they can take action to rein in mortgage lending. Mortgage rules have been altered of late and this has increased the vetting process prospective buyers are put through and could lengthen the time it takes to obtain the funds.

For its part the Government has said that it will consider any changes suggested by the BoE, particularly in regard to their Help to Buy initiative. David Cameron, the Prime Minister, said: *"This is a well targeted scheme and it has helped tens of thousands of people get on the housing ladder and to have mortgages."*

The Treasury Minister, Andrea Leadsom, added: *"The thing is a fine balance. In London prices are rising quite fast. In the rest of the country – and in the country as a whole – they remain 15% in real terms below the pre-crisis peak."*

Lowest unemployment figures for 5 years

The three months to March this year saw the biggest quarterly increase in employment (283,000) since records began in 1971.

There are now 18.9 million people in full-time employment, a rise of 0.3% and 6.7 million people in part-time employment, a rise of 0.6%

Those classified as self-employed also increased, by 183,000 to 4.55 million, reflecting an increased entrepreneurial spirit in the country.

In addition to this good news the number of job vacancies also reached its highest level since 2008.

The unemployment rate dropped to 6.8%, representing 2.21 million people, as the number of those out of work dropped by 133,000 in the period.

Continuing this encouraging trend, youth unemployment – affecting those between 16-24 years old – also fell to 868,000 a decline of 48,000, itself the lowest figure for five years, and the number of people claiming Jobseeker's Allowance fell by 25,100 to 1.12 million.

Commenting on these figures, Esther McVey, the Minister for Employment, said: *"As the recovery takes hold, more people are able to get a job or set up their own business and become the employers of tomorrow."*

Meanwhile, the Chancellor of the Exchequer, George Osborne, tweeted: *"There's more to do, but it's welcome unemployment is down again, more jobs mean more financial security for people."*

Reinforcing these sentiments, David Kern, the Chief Economist of the British Chambers of Commerce (BCC), was quoted as saying: *"The figures continue to demonstrate the flexibility and resilience of the jobs market, which is a source of strength for the economy."*

Markets: (Data compiled by The Outsourced Marketing Department)

Investors returned cautiously to the world's equity markets in May with most markets moving into positive territory. The FTSE100 closed the month on 6,844.5, up 0.95%, having touched 6,878.5 in mid-month to flirt just 0.75% below its all-time high of 6,930, reached back in 1999. The wider FTSE250 also moved ahead, by 1.22%, to finish May at 16,010.25. Only the junior AIM market slipped a little, by 0.88%, to end lower on 815.33.

Across the pond, the Dow Jones saw a 0.82% improvement in the month to close at 16,717.17, with the Nasdaq powering up to 4,242.62 for an impressive gain of 3.11%.

European markets followed suit as the Eurostoxx50 closed May on 3,198.39 to record an improvement of 1.44%; and in Japan the Nikkei 225 didn't disappoint, gaining 2.29% to close at 14,632.38.

Continuing good economic news in the UK was tempered by the Bank of England intimating that interest rates will remain at their historic low of 0.5% for some time. Sterling reacted by losing some ground and ending a bullish three-month run, by slipping back against the US Dollar by 1.18% to $1.67. However, with the continuing fear of deflation across the eurozone, sterling gained against the Euro, closing May at €1.23, an improvement of 0.82% for the month, and the Euro itself lost 2.16% against the US Dollar to finish at $1.36.

On the commodity front, oil had another quiet month, with the Brent Crude benchmark rising slightly by 1.24% to $109.41 a barrel. Gold continued to lose investor support in May, closing the month at $1,244.77, down just shy of 3%.

Cautious return to risk markets

10-year high for retail sales in April

More encouraging signs of economic recovery and an improvement in consumer confidence and spending were reported last month, with April seeing retail sales in the UK grow by 6.9%, compared with the same month last year, which represents the sector's strongest performance since May 2004.

There was also an increase of 1.3% in sales between March and April 2014. The figures, released by the Office for National Statistics (ONS), showed the retail sector growing in quantity of sales for the 14th consecutive month of three-month on three-month figures.

One of the strongest performances came from the food sector, recording its best year-on-year performance since January 2002, with an increase of 6.3%.

Feedback from the industry was that a spate of promotions, the spell of better weather and the impact of the Easter holiday had a strong positive influence here. Another factor was the reduction in food prices (as reflected in the CPI figures) where food store price inflation was 0.9%, half of the 1.8% recorded in March 2014. Strong price competition, driven by the discount stores, in the supermarket segment also had the effect of driving down prices, creating structural reorganisation for some store groups and thus further encouraging consumer spending.

Overall, the retail industry saw an increase of 6.2% in spend, compared with the same month last year and an increase of 0.6% since March 2014. Average weekly spending (non-seasonally adjusted) was £7.0bn in April, against £6.5bn recorded in April last year and the £6.8bn recorded in March 2014.

Online spending remained strong, showing a 13.3% increase in April against the same month last year and up 2.6% from March 2014.

Government hits borrowing target

According to the Office for National Statistics (ONS), the Government, for the financial year 2013-14, borrowed £107.7bn.

This is fractionally below the £107.8bn estimated deficit set by the Office for Budget Responsibility (OBR) at the time of the Budget in March. More importantly this is well below the £115.1bn it borrowed in the previous financial year.

February's borrowing was revised down to £8.8bn from £9.3bn, whilst March's borrowing fell to £6.7bn from the £11.4bn borrowed the previous year.

Given that these figures are the first provisional estimate from the ONS for the tax year 2013-14, they may well be revised further as more detailed data becomes available.

This estimate also excludes the transfer of the funds from the Royal Mail pension scheme, taken as part of their privatisation process, and gains made by the Bank of England from its asset purchases through its quantitative easing programme.

The UK's total public sector net debt is now £1,268.7bn, which represents 75.8% of Gross Domestic Product (GDP). The OBR believes that this ratio will increase to (and peak at) 79% of GDP in the tax year 2015-16. However, the Government has stated its determination to eliminate the budget deficit completely by the tax year 2017-18.

The British Chambers of Commerce's Chief Economist, David Kern, said that gradual progress had been made but added: *"however, bringing down our budget deficit remains a difficult task. Since the financial crisis, we have seen falls in oil and gas output and weakness in the financial sector.*

UK borrowing meets target

"These structural changes have reduced the country's ability to generate tax revenues, and public spending must factor in these challenges.

"Although progress may be gradual, reducing our public sector debt is necessary, as it will help businesses drive the recovery, and create jobs and wealth."