Monthly

Economic Review

Provident Solutions
Wealth Creation & Wealth Management
Financial Lifestyle Planners
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Economic review of: November 2012

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

Surprise choice for new Bank of England Governor

In a surprise announcement by the Chancellor of the Exchequer, George Osborne, Mr. Mark Carney has been named as the new Governor of the Bank of England. He will be taking over from Sir Mervyn King in June 2013. His tenure will be for a period five years, at a salary of over £600,000 a year.

A new broom at 'The Old Lady.'

Mr Carney is 47 years old and has both strong academic and business credentials. Educated at Harvard and Oxford, he is currently the Governor of the Bank of Canada where he has been in place for the last 5 years, successfully steering the Canadian economy through the recent global financial crisis. He is also the Chairman of the global Financial Stability Board.

Prior to that he spent 13 years with the investment bank Goldman Sachs and boasts close links to the UK, having a British born wife, with his two children holding joint Canadian and UK citizenship.

Sir Mervyn King said of the appointment that he represented: *"a new generation of leadership for the Bank of England, and is an outstanding choice to succeed me."*

Given that the position of Governor is one of the most crucial positions to manage the UK economy, Mr Osborne reporting to Parliament said that he would bring the: *"strong leadership and external experience the Bank needs"*

He went on to add that Mr Carney was recognised as *"the outstanding central banker of his generation"* and that as Governor of the Bank of Canada he was *"acknowledged to have weathered the economic storm better than any other major Western economy."*

In acceptance of his new role, Mr Carney said he was: *"honoured to accept this important and demanding role"* at a *"critical time for the British, European and global economies."*

The ONS confirms strong economic activity in Q3

Encouraging confirmation of the strong recovery recorded in the third quarter of 2012 was reported.

Following last month's estimated figures for the UK economy, the Office for National Statistics (ONS) confirmed in November that Gross Domestic Product (GDP) indeed grew by 1% in the third quarter of 2012. This represented a strong growth in the economy, ending a nine-month recessionary period.

One of the main factors behind these figures was the contribution made by the London 2012 Olympic Games, which helped boost consumer spending by 0.6%, its best showing for over two years.

Strong Q3 GDP confirmed

One caveat was that the economy did in fact contract by 0.1% compared to the same period a year earlier, whilst the original estimate had indicated flat growth.

There was no change in the original estimate of activity in the service sector, which grew at 1.3%; however, growth in the industrial sector was revised down to 0.9% from the previously estimated 1.1%. The construction sector activity was also revised slightly down.

As usual, the ONS will again revise these third quarter figures next month after they have been able to collate more comprehensive data.

Pundits added their comments to these figures, sounding a note of caution that this positive outcome for the quarter may be short lived. Chris Williamson of the research group Markit commented: *"If anything, the details in the new data further highlight the temporary nature of the upturn.*

"Payback is likely in the fourth quarter."

Markets: (Data compiled by The Outsourced Marketing Department)

Positive sentiment from the eurozone, with Greece receiving the promise of its hoped for bail-out funds, saw the London FTSE100 gain 1.45% to close the month on 5,866.8 and the wider FTSE250 finishing on 12,034.2 for a more modest rise of 0.83%. In mainland Europe, the Eurostoxx 50 likewise gained 2.86% to finish at 2,575.25.

With the American Presidential elections successfully put to bed, with Mr Obama being returned for a second term, he now has to turn his attention to the possible fiscal cliff threatening the USA's government finances, the Dow Jones therefore marked time, finishing November on 13,025.58, down a modest 0.54%. The Nasdaq faired a little better, closing on 3,010.24 up 1.11%

The Japanese Nikkei 225 had a strong month, recording a 5.8% gain to close on 9,446.01.
As always, the foreign exchanges tracked the global political and fiscal situation carefully with UK sterling closing at US$1.60, little change on the month, whilst against the Euro it finished the month at €1.23, down 1.6%, reflecting the better sentiment seen regarding the southern

All eyes still on Greece

European sovereign debt issues. The Euro itself finished the month at US$1.30.

Oil saw little change in November with the Brent Crude benchmark ending at $109.51 up a marginal 0.75%.

Gold had a volatile trading month with the precious metal dipping to $1,705.63 at one point, only to bounce back to finish November on $1,742.05, for an eventual monthly gain of 1.9%.

New car sales up 12% in October

Good news on the motoring front as October saw UK new car registrations rise by 12.1% to a total of 151,250 and Ford's renowned model the Fiesta maintaining its long-held position as the UK's best-selling car, selling 8,058 units in October, for a year-to-date tally of 97,000, helping Ford to 13.7% of the market.

UK beats the European trend

These buoyant figures announced by the Society of Motor Manufacturers and Traders (SMMT) bring the 2012 sales total to 1,771,861 cars so far, which itself is a 5% increase on the previous year. The SMMT, hopefully, believe that 2012 will see a total of 2 million units sold, against their July forecast of 1.97 million.

The effects of austerity have impacted on the buying habits of the UK motorist with more people looking for smaller, more fuel-efficient cars and those attracting the lower annual road taxes.

The 'Mini' segment of the market grew by a massive 52% across the year and the even smaller 'Superminis' segment grew by 5%. So between them, these segments account for 40% of the marketplace.

There was also a marked increase in people buying alternatively fuelled vehicles (AFVs) with interest shown in fully electric and hybrid/electric models. This segment of the market saw growth so far in 2012 of 13%, although it still represents only a tiny 1.5% of the market.

Much of this interest could be attributed to the fact that under the government's 'Green' initiatives, these cars attract no annual road tax and their users do not have to pay local congestion charges.

Very good news then for the UK, although across the wider European market, most manufacturers have seen retrenchment in sales, with Ford reporting their lowest sales in the region for 20 years.

Q3 sees improvement in mortgage lending

According to the Council of Mortgage Lenders (CML), their members offered 146,500 mortgages in the third quarter of this year, representing an increase of 13% on the previous quarter.

However, this data hides wide variations in the monthly figures, as September saw only 44,400 mortgages offered which was 17.6% lower than the 53,900 loans advanced in the previous month of August and 9% lower than the 48,800 loans advanced in the same month last year.

Encouragingly, lending to first-time buyers in Q3 increased by 16% to reach 57,000 loans, which was 40% of all loans advanced, whilst home movers utilised 89,600 loans to record a 12% increase.

Remortgaging remained depressed, falling by 7% to £9.7bn, itself down from the £12.7bn seen in Q3 2011.

More funds made available

At the same time, HM Revenue and Customs reported that there was an increase of 9% in the number of homes sold in the first nine months of 2012 compared to the same period in 2011.

It is hoped that this trend will continue thanks to the Funding for Lending scheme that was introduced by the government on August 1st. This should release about £60bn of funds to banks and mortgage lenders, some of which filters through to individuals and small businesses for house purchases.

Empirical evidence though has shown that the initial tranche of these funds has gone to finance cheaper mortgage deals being offered to those with larger deposits.

The CML reinforces this fact by stating that their evidence shows first-time buyers are still having to raise deposits in the 20% range to effectively get on the property ladder.

Commenting on these statistics, the director general of the CML, Paul Smee, was quoted as saying: "While lending in September was slow after a particularly strong August, quarterly figures suggest that the underlying picture is more positive."

Can Local Government pension funds create new housing?

A commission of the Royal Institute of British Architects (RIBA) entitled The Future Homes Commission has suggested ways to improve the UK's new housing stock.

After a year-long consultation, it states that currently the UK requires a threefold increase in the number of new houses being built.

They believe that local government pension schemes should be allowed to invest more of their investment funds into new housing projects under the auspices of The Local Housing Development Fund. Those houses built could then be sold off to replenish the pension funds' assets.

Such a radical approach to new house building would create tens of thousands of jobs and boost economic growth across the country, without increasing current government debt.

Sir John Banham, the commission chairman, believes that those local councils could lead new housing development and he went on to say: *"There is no better time to tackle the UK housing crisis.*

"We need to increase massively the number of quality homes being built for many years to come, but also to develop communities which embrace the quality of life for both new residents and those living in existing communities nearby. All this has to, and can, happen without any additional government funding.

"We strongly believe that local government can become the leader of new development once again, by using their assets and powers to create the type of mature, sustainable, mixed tenure communities that Britain needs and that institutional and international investors want to invest in."

Also commenting on the report, the RIBA president, Angela Brady, was quoted as saying that the findings: *"provide an excellent starting point for delivering a radically improved housing market."*

At the same time the coalition government's Communities Secretary, Eric Pickles has said that there was a: *"huge investment opportunity"* to address the current dearth of new housing starts.

Currently, local government pension schemes can only invest a maximum of 15% of their invested funds into national infrastructure projects, but should this initiative be adopted this may be increased to 30%, which would equate to approximately £22.5bn to £45bn of new funds being made available.

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