Monthly

Economic Review

Provident Solutions
Wealth Creation & Wealth Management
Financial Lifestyle Planners

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Economic review of: November 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

Economic recovery fastest in the West

UK economy powers on

Further very encouraging signs of the economic recovery come from a recent survey by the Institute of Chartered Accountants in England and Wales (ICAEW).

Together with Grant Thornton, the accountancy firm, the ICAEW produce the UK Business Confidence Monitor (BCM) index, which measures the level of business confidence, as reported by 1,000 accountants across the country. This BCM reached a 10-year high this month, rising from 24.0 points to 31.7 in the third quarter of 2013.

Businesses generally are therefore anticipating another expansive performance, with the benefits seen across all sectors, including retail, underlining a broad-based economic recovery for the rest of the year.

These businesses expect to see employment growing, with a 1.7% increase in headcount forecasts, together with a profits growth forecast of 4.7%, an increase on the 3.5% seen in the comparative period. They also expect the UK's Gross Domestic Product (GDP) figure to rise to 1.3% in the fourth quarter, up from the 0.8% figure reported in the third.

The Chief Executive of ICAEW, Michael Izza, commenting on these findings, said: *"This quarter's report shows that the UK economic recovery is well under way… if it continues at this rate, the economy will be one of the fastest-growing economies in the western world going into 2014."*

One caveat to this good news is that wage growth remains very anaemic, at just 1.8% for the coming year. This, being well below the current rate of inflation, with CPI sitting at 2.7% as Q3 ended but easing to 2.2% in October, may well dampen consumer spending in the short term.

Most of this good news was comfort to the Chancellor of the Exchequer, George Osborne, as it vindicates his austerity policy being adhered to since the coalition government came to power. It may well also influence his thinking regarding his forthcoming Autumn Statement, due in the first week of December, and may encourage him to show some largesse towards the long-suffering taxpayer.

Oil price drops on Iranian nuclear accord

In late November, after protracted negotiations conducted in Geneva between Iran, the USA and UK, it was agreed that Iran will limit its production of enriched Uranium – which can be used to produce nuclear weapons – and so allay the West's and Middle Eastern fears of continued nuclear proliferation in the region.

Historic accord agreed

A hugely contentious issue, this has involved Israel and Saudi Arabia as well as the European Union (EU).

As a result of Iran's continued production of enriched Uranium, the West had imposed stinging international Trade restrictions which had badly damaged their oil exports. Because of global pressure these sanctions were also embraced by the EU, China, India, South Korea and Japan, further diminishing Iran's oil exports. In 2010 Iran exported 2.154 million barrels per day (bpd) but as a consequence of these restrictions this was reduced to just 1 million bpd.

In addition to this, the USA also threatened to sanction any foreign financial institution that continued to conduct oil transactions with the state's central bank, further strangling their oil revenues.

The result of this accord will be the lifting of these sanctions and to allow Iran to once again ramp up its oil production and thus increase the global supply of the black gold to the obvious financial benefit of the country. Iran also has one of the world's largest proven reserves of gas, so if a permanent solution to the nuclear issue is agreed, the country could once again be one of the major global players in the energy market. The country's natural energy resources have never returned to their peak production levels, reached in 1974, prior to the Islamic revolution in the country at the end of that decade.

At the close of the month, the benchmark Brent Crude oil price was standing at $109.69 per barrel.

Markets: (Data compiled by The Outsourced Marketing Department)

After two months of relative volatility, equity markets calmed with few political or economic issues showing influence. Here in the UK the FTSE100 slipped by 1.2%, finishing the month at 6,650.6, and the wider FTSE250 followed suit, closing November at 15,466.6 to show a marginal 0.09% decline. AIM, the junior market, bucked the trend to see a rise of 2.35% to finish on 827.42.


Calmer waters in November

The European markets were flat, with the Eurostoxx 50 ending the month at 3,092.42 to record a small gain of 0.8%.

However, across the pond the Dow Jones powered ahead to 16,086.41, recording a strong gain of 3.48% and the Nasdaq market seeing a 3.58% rise to 4.059.89.

Meanwhile, in Japan the Nikkei 225 showed the way, with an impressive rise of 9.31% to close out November at 15,661.87. This market has now seen a strong rise of 16.9% over the previous three months.

Foreign exchange markets saw sterling improve against the US Dollar by 2.5% to $1.64 and against the Euro by 2.54% to €1.21. The US Dollar remained unchanged against the Euro at $1.35.

The closely watched political accord reached with Iran, over curbing its nuclear ambitions, saw oil in the spotlight. With the prospect of sanctions being lifted and eventually releasing Iran's vast oil and gas reserves onto the market, the benchmark Brent Crude price dipped to $109.69 a barrel. However, many i's have to be dotted and t's crossed in this regard, so the market may well prove volatile in the short term.

Gold continued to be unloved, losing 6.26% in value in November alone to close at $1,238.71 an ounce. This is the third month of falls in a row, representing a loss of 11.2% over that period.

Prime arable land beats London house prices

With predictions for prime arable land to reach nearly £11,000 an acre by 2018, the end-2012 average price of £7,594 an acre represented a 10.7% increase from the previous year. This outstrips the rise in prime London residential property, which rose by 9.3% in the same period.

This happened again back in 1973, at the height of the first oil price shock, in 1980, during the UK's economic crisis, that pushed interest rates to 15% and finally in 1990, as result of the first Gulf war.


Dig for victory

Savills the leading estate agents predict that prime arable land will rise in price to an unrealistically precise £10,631 by 2018.

Compare this to last month's data released by The Land Registry, which saw national residential property prices rising by 1.3% annually, but with the worst region – Wales – seeing an actual decline in price of 1.8%.

Arable land is a tangible asset; it is not going to go away and so is also seen as a good hedge, particularly against the inflationary effect of the current quantitative easing programme being undertaken by the Bank of England and the US Federal Reserve. This market has attracted an increasing number of both domestic and overseas investors. This agricultural land ownership also benefits from certain business property reliefs that can allow such holdings to be handed down through future generations without incurring inheritance tax.

Many overseas investors believe that the UK has an attractive liberal attitude to arable land acquisition and the paucity of transactions helps to maintain values as many farmers and investors hold on to current properties as long-term investments.

Added to this, the agricultural industry has benefited from increasing demand for home-grown food further increasing the benefits of investing in prime land suitable for such intensive farming.

Help to Buy is a success

The Prime Minister, David Cameron, speaking in November, said: *"Four weeks in and it's clear that Help to Buy is already delivering. In just one month, over 2,000 people have accepted a Help to Buy Mortgage."*

He went on to add that most of the applicants were first-time buyers, were young and had roughly average income levels, with joint incomes below £50,000.


First-time buyers appear

The official figures from the Government were that 2,384 people have already made offers to purchase as a result of the scheme and 10 deals have completed. That represents 75 people a day applying since launch.

Average prices for these properties has been £160,000 according to the main lenders to date, namely Royal Bank of Scotland (RBS), Nat West (a subsidiary of RBS) and Halifax and that 75% of those applying are first-time buyers. The majority of these are younger than 35 and without children.

As always, there are wide regional variations; seeing Scotland show average earnings presented of ££36,698 and average property prices of £117,619, whilst in the South East the average joint income was £56,849 and a property value of £209,068.

However, not all of the coalition government agree as to the efficacy of the policy, as Vince Cable, the Business Secretary, has repeatedly warned that it could lead to a new housing bubble, similar to that which led to the last financial crisis.

Latest figures released from The Land Registry show a healthy property market with the index sitting at 268.4, representing a national average price of £167,063. This shows a monthly price increase of 1.5% and an annual rate of increase of 3.4%.

London property continues to lead the market, with a monthly price increase of 1.7% and annual increase of 9.3%, reflecting an average house price of £393,462.

At the other end of the scale, Wales reported price decreases of 0.4% for the month and a decline of 1.7% over the year.

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