Monthly

Economic Review

Provident Solutions
Wealth Creation & Wealth Management
Financial Lifestyle Planners

Economic review of: September 2012

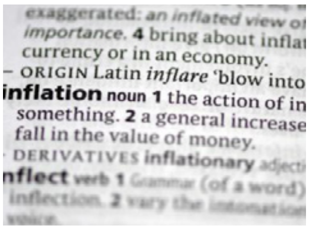
Our monthly economic review is intended to provide background to recent developments in investment markets as well as to give an indication of how some key issues could impact in the future.

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

Inflation dipped in August

Continuing a positive trend, UK price rises were trimmed in August, compared to the previous month, according to the Office for National Statistics (ONS).



Good news on inflation front

Both the Consumer Prices Index (CPI) and the Retail Prices Index (RPI) – which also includes housing costs - measures fell during the month, with the CPI change dipping to 2.5% in August, against 2.6% recorded in the previous month and the RPI movement showing a drop to 2.9% from 3.2% in July.

The ONS stated that factors behind the fall in the CPI were smaller rises in gas prices and furniture costs.

Whilst reporting this data, the ONS also said that they will be consulting on possible changes to their RPI calculation methods between the 8th of October and the 30th of November this year.

Given that CPI inflation peaked at 5.2% in September 2011, these new figures are good news for consumers, the Bank of England, who have been set a target of 2%, and the Government. The expected drop in demand in the UK economy should result in inflation continuing to decline towards this 2% target in the short term.

This said, the ONS did warn that there remain a few factors that may put upward pressure on prices. Mr Richard Campbell, an ONS director, was quoted as saying: *"Some of the utility companies are talking about price increases in the next few months, while there have been reports of poor harvests in many parts of the world, which could possibly have an impact on food prices.*

"Finally, if the oil price continues to go up, we expect that to feed through to petrol and diesel prices."

With the UK economy having contracted over the past three quarters and the Bank of England's additional Quantitative Easing (QE) programme worrying analysts that it would stoke inflationary pressure, these lower CPI and RPI figures eased their concerns in this regard.

UK funding for business is now on course.

In a two-pronged initiative the coalition government has announced the creation of a new 'British Business Bank'; an entity that will initially be funded with £1bn of taxpayers' money and, hopefully, a larger private sector contribution in due course.

The brief for this Business Bank will be to offer funding to small and medium-sized businesses and *"get behind"* good firms who are currently struggling to receive financing from the high street banks.

SME's get funding window

It is hoped that the Business Bank will operate via the existing lenders and start disbursing funds within 18 months. It has not been made clear, however, exactly where the state funding will come from and we will have to wait until the Chancellor's autumn statement on December 5th for the details.

Any disbursements will be in the form of equity stakes or guarantees; therefore, they will sit on the balance sheet of the recipient businesses and not be reclaimed by the government. Vince Cable, the business secretary, stated that there is, however, a chance they could generate a return for the taxpayer in the long run.

The second string to this initiative is the previously announced Funding for Lending scheme (FLS), which is also designed to make cheaper loans available to businesses and individual entrepreneurs.

In an announcement in late September, five of the largest banks in the UK have agreed to participate in this scheme, which means that thirteen banks and building societies have now signed up. Together they will represent 73% of the lending market, worth approximately £1.2 trillion. Only HSBC has declined to take part, as it states that it does not require the additional funding.

The participating banks and building societies will be able to borrow 5% of their loan books straight away and increase this percentage if certain criteria are met. They will be charged a minimal 0.25% interest on these funds, provided that they increase their overall lending as a result. Should they decrease their lending, then they will be charged 1.5% by the Bank of England.

The UK taxpayer and the Bank of England will be covered against any possible losses, as the borrowing banks and institutions will have to lodge collateral with the Bank of a higher value than the loans offered.

Given their current lending figures, this could result in an additional £60bn being made available from the Bank of England for them to lend on to businesses at more competitive rates.

The Bank of England's executive director for markets, Paul Fisher, commenting on this announcement said a: *"significant number"* of additional building societies and banks were considering joining the scheme.

He went on to add: *"I am confident that the FLS will help the supply of credit. Before its introduction, it was more likely than not that the stock of credit would contract further over the next 18 months."*

We are saving more, especially the women

In the latest survey from National Savings and Investments (NS&I) it is reported that we are saving more as a nation, although still not as much as we did in the winter of 2011/12.

The ladies are more thrifty

We are now saving 7.17% of our disposable income each month or £90 in real terms. This is an increase from the 7.08% recorded in the previous quarter.

It is interesting to note that the 25-34 year olds lead the way by saving significantly more than the average, at £103 a month or 8%, which is itself an increase from the previously reported 7.24% for this group. Also, women appear more thrifty than men in this respect, with women saving 7.65% of income against the men's average of only 6.82%.

One of the factors affecting these results is that over 50% of women appear to set savings goals on a regular basis and feel rewarded when these are met. Men are less likely to use this strategy, as only 41% reported doing so.

Other statistics emerging from the report are that the Scots save 7.35% or £95 a month and the Welsh 7.7% or £87 in real terms, due to lower average wages in this region.

The NS&I Retail Customer Director, John Prout, was quoted as saying: *"It is encouraging to see this improvement in savings over recent months, and it's particularly good to see such motivation from younger people. Setting goals is an effective way to get into a regular savings habit. Not only do they encourage people to save, they provide a real sense of achievement once a goal has been reached."*

Markets: (Data compiled by The Outsourced Marketing Department)

With the equity markets still closely following developments in the eurozone, the mixed messages coming out of Spain and Germany resulted in a lively monthly session. The UK's FTSE100 had gained over 3.5% at the mid-point in the month to stand at 5,915.5, however, the Spanish economy's continuing weakness coupled with the prospect of them having to request a bail-out from the EU, meant it fell back later to end the month on 5,742.1, up only a modest 0.54%. It now sits at -11.94% against its long term trend. The FTSE250 fared a little better gaining 2.84% on the month and finishing at 11,734.1. The AIM also did well closing September on 705.76 or up 3.66%.

All eyes still on the eurozone

American markets remained more resilient with the Dow Jones closing on 13,437.13 up 2.65% and the Nasdaq up 1.61% at 3,116.23. Mirroring the movements of the FTSE100 the Eurostoxx50 closed relatively flat at 2,454.26 or up 0.56%. In Japan the Nikkei ended the month on 8,870.16 to show a rise of 0.34%.

Currencies also followed the eurozone news with sterling finishing at $1.61, up a modest 1.5% against the greenback and at €1.252 against the euro, a dip of 0.87%. The euro itself ended the session on $1.29 against the US$.

Gold continued to glitter, with bullish sentiment and forecasts for the precious metal pushing the price up again for the fourth straight month, finishing September on $1,772.04. This represents a 15.7% appreciation so far this calendar year, but is still below its September 2011 peak of $1,921.

On the oil markets Brent Crude saw little change during the month ending on $112.39.

Jobs (Source: The Office for National Statistics)

The latest unemployment rate in the UK continues to throw up anomalies against the poor Gross Domestic Product (GDP) figures recently released for Q2 2012.

Unemployment continues to fall

Unemployment has continued to fall, confounding many market analysts, with the number of full-time workers increasing by 102,000 on the previous quarter, up 0.5%. This represents the best figures since April 2009. Part-time workers also increased by 134,000 to a total of 8.12 million; this is the highest figure recorded since records began in 1992.

Overall, the unemployment rate for the three months to July 2012 was 8.1%, which is a reduction of 0.1% amounting to 2.59 million people. The flip side to these figures is that 71.2% of the workforce is currently in employment.

Those unemployed for over one year has increased by 22,000 from the previous quarter to 904,000, the highest figure since the quarter ending March 1996.

The youth jobs market (those between 16-24 years old) improved slightly in the three months to July 2012 with an additional 58,000 finding employment, but there remained 1.02 million of those unemployed representing 21.6%.

Those unemployed claiming Job Seekers Allowance also fell by 15,000 to 1.57 million between July and August 2012.

The disparity seen between the private and public sectors continues with private sector employment increasing by 471,000 from March 2012 to 23.9 million, whilst the public sector saw a decline of 235,000 people to 5.66 million.

Redundancies fell by 13,000 from the quarter ending April 2012 and down 20,000 from a year earlier. Therefore the redundancy rate was 5.7 per 1,000 employees, again down 0.5 on the previous quarter and 0.8 on the year earlier.

Total pay saw an increase of 1.5% with average total pay (including bonuses) being £471 per week. Average regular pay (excluding bonuses) was recorded at £443 per week.

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