ECONOMICREVIEW
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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
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Wealth Creation & Wealth Management
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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

UK economy strongest since 2010

The UK economy continued to power ahead, according to the Office for National Statistics (ONS) who reported that it is now 2.7% bigger than the high it attained just before the recession.

Their revised growth estimates, released on September 30th, showed that the economy grew by 0.9% in the three months to end June, which is 0.1% higher than their previous estimate of 0.8%. This then is the highest quarterly growth seen since Q2 of 2010.

Recessionary dip eclipsed

This encouraging news confirms the fact that the economy has now recovered all the ground lost since the 2008-9 recession hit, which is nine months sooner than previously calculated.

In its previous estimates the ONS calculated that the UK economy lost 7.2% of growth during the 2010 and 2012 period, but this has now been reassessed down to only 6%.

George Osborne, the Chancellor of the Exchequer, commenting at the Conservative Party's annual conference described the latest data as: *"more evidence that tackling our problems head-on works."*

The ONS has changed its methodology for calculating the Gross Domestic Product (GDP) and is now more in line with internationally accepted standards.

The data used now to calculate GDP includes spending on illegal activities, such as prostitution and drug use. Surprisingly, the ONS calculates that prostitution contributed nearly as much to GDP as hairdressing. The figures also now include businesses' spending on research and development.

Investment by businesses also grew by 11% in Q2, which is the highest level achieved since Q1 2007. Consumer spending, which is responsible for two-thirds of GDP, managed to grow by 0.6% and recorded its twelfth straight quarterly increase, despite still very weak annual wage growth.

The Chief Economist of the British Chambers of Commerce, David Kern, was quoted as saying: *"these figures reinforce the need to rebalance the economy towards exports and investment."*

Oil price falls below $95

With the strong recovery in the US economy and market expectations that the US will tighten its monetary policy faster than previously expected, the US dollar strengthened considerably against a basket of major currencies.

As a direct result, the price of oil, as measured by the Brent Crude benchmark, which values the oil obtained from 15 of the North Sea fields, fell below the $95 per barrel level. This had previously been regarded as a resistance level in the market, which has now seen a steady reduction in the oil price since June, when it peaked at $115 per barrel, following the geopolitical unrest in the Ukraine and elsewhere.

Lower oil prices are a boon to the UK economy as many industries are heavy users of oil and oil products. These include transport, manufacturing and heavy industry.

Another reason behind the reduction in price is the stalling of the Chinese economy, which has reduced dramatically its consumption of not only oil, but also basic commodities such as iron-ore, other feed-stocks and rare earths.

On the other side of the equation, oil producing countries are starting to feel the squeeze. Oil revenues are very important to many global economies, such as Russia, the Middle East, Indonesia, Libya, and Nigeria.

Given that oil is always transacted in US dollars, the recycling of these, so called, petrodollars is an important part of the global economy, so lower oil prices may be a double edged sword, reducing consuming countries' gross domestic product as a result.

Since the initial *'oil shock'* back in the mists of time of the 1970's, the price of oil, or black gold as it is sometimes called, has been extremely volatile, with as an example, 2009/10 seeing a price range of $60-$125 per barrel.

Price fall good for the economy

Markets: (Data compiled by The Outsourced Marketing Department)

Multiple global factors conspired to spook the equity markets in September. In the UK the Scottish independence referendum, interest rate fears, and Tesco's accounting issues, in the US, tightening monetary policies and elsewhere continued unrest in the Ukraine, Libya, Syria and a slowing Chinese economy.

The FTSE100 had a bad finish to the month, losing 188.53 points, or 2.76%, in the penultimate week, finally closing at 6,620.7, for a monthly loss of 2.89%. The wider FTSE250 fared slightly worse losing 3.19%, to close on 15,379.72 and the junior AIM market finishing September at 749.49 for a loss of 3.78% on the month.

Over in America the markets lost the ground gained in August with the Dow Jones losing 55.55 points to end the month at 17,042.9, down a marginal 0.32% and the technical-based Nasdaq index ending at 4,493.39 for a fall of 1.9%.

The eurozone, however, bucked the trend, continuing its August gains by adding 1.7% to the Eurostoxx50 index to end September at 3,225.93. Japan also gained over the month adding 748.93 points to 16,173.52.

Foreign Exchange dealers continued to follow the deliberations of Mark Carney, the Governor of the Bank of England, carefully trying to gauge the timing of any UK interest rate rise. In contrast to last month's missives he now stated that the time for interest rate rises was *"getting closer"*. As a result sterling had a mixed month gaining strongly against the Euro to €1.29, a gain of 1.57%, but losing ground against the greenback to $1.62, a drop of 2.41%.

As a result of the above issues and a slowing Chinese economy, the price of oil dipped below the Brent Crude benchmark resistance level of $95 per barrel, ending September 7.6% lower at $94.67 a barrel. **(See oil article).**

Gold, the usual safe-haven asset in times of unrest, did not react accordingly, as it lost 5.9% to end the month at $1,216.50 a troy ounce.

Markets mildly spooked by events

Inflation continues its downward trend

August saw the UK inflation rate fall again. The Consumer Prices Index (CPI) dipped from 1.6% to 1.5%, thanks mainly to a reduction in petrol prices, which have been at their lowest level for three and a half years. This also reduces prices in other sectors as transport costs are reduced across the country.

No-alcoholic drinks and, more importantly, food also saw price reductions. They both saw prices dropping by 1.1%, which represents the greatest fall for ten years. This was mainly as result of the increasing competition being seen in the supermarket sector, as the big four players try to counter the threat seen from the discounters, such as Aldi and Lidl.

On the downside, transport services, alcohol, and clothing saw modest price rises and core inflation, which ignores tobacco, alcohol, energy and food prices actually rose by a higher 1.9%

At the same time the wider Retail Prices Index (RPI), which is used as a benchmark for not only welfare payment and state pension increases, but also many other price increases, such as rail fares and wage settlements, dipped from 2.5% to 2.4%.

Encouragingly, the CPI and the RPI inflation figures are now sitting at a five-year low.

According to the Office for National Statistics (ONS), CPI has now recorded its eighth successive month below the Bank of England's 2% target.

Six-year low for UK unemployment figures

UK unemployment (including Scotland) fell to 6.2% in the May-July quarter according to the Office for National Statistics (ONS).

Five-year low for UK inflation

There are now 2.02 million unemployed which is a reduction of 146,000 over the three-month period and represents the lowest figure since 2008.

Importantly, the number of people claiming Jobseeker's Allowance in August fell by 37,200 and now sits at 966,500, crucially below the one million mark.

During this year unemployment in the UK has fallen by 468,000. This is the largest reduction in unemployed recorded for 26 years.

However, whilst the number of people in employment rose by 74,000 to 30.61 million, this represented the lowest increase seen since the April-June quarter of 2013.

This data was further encouragement to the younger generation as the ONS reported that the number of jobless in the 16-24 year age group also fell to 747,000, a reduction of 106,000.

The ONS was prompted to state: *"These were the largest quarterly and annual falls in youth unemployment since comparable records began in 1992."*

The ONS statistics are obtained via their Labour Force Survey, which canvasses 60,000 households each quarter, which itself is one of the largest household surveys available and they believe that their margin of error is within plus or minus 77,000 of the 2.02 million figure stated.

Responding to this good news, the Chancellor of the Exchequer, George Osborne, tweeted: *"Today's employment stats (sic) mark another step towards full employment. But still much to do."*

Perhaps taking the shine off this encouraging news is the fact that average wage growth in the UK still remains stubbornly below the latest inflation figure of 1.5%, suggesting that employees are still wary to push for wage increases and remain in fear of losing their jobs.