

ECONOMIC REVIEW

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CBI REPORT FIRES OFF A NEW VOLLEY IN THE EU 'IN/OUT' DEBATE

'Brexit' – the potential for the UK electorate to vote to leave the European Union would, according to a Confederation of British Industry (CBI) report, constitute a "serious shock" for the British economy. Their research warns of a cost of up to £100 billion to the economy and close to one million jobs by 2020. CBI director-general, Carolyn Fairbairn, warned of "a real blow for living standards, jobs and growth".



EU exit a 'serious shock' or an 'absolute fillip'?

The research looked at two outcomes following a Brexit decision – a free-trade agreement being swiftly agreed upon with the EU within five years or, if the UK decides to conduct business via membership of the World Trade Organisation, a more drawn-out period of negotiations. In either scenario, according to the report, short-term uncertainty would cause widespread insecurity among the business community; firms would delay implementing strategic investment decisions while the UK renegotiated the 50 deals around the world currently run through the EU.

However, Brexit supporter Peter Hargreaves, founder of funds supermarket Hargreaves Lansdown has spoken of an "absolute fillip" for the UK following an 'out' vote while fund manager savant Neil Woodford has commissioned a report by Capital Economics, which concluded that an EU exit would not have serious consequences in the longer-term, predicting a "nil sum game". Neil Woodford himself believes that "the fundamentals of the economy will be relatively unmoved" and the vote would have a marginal effect on his investment strategy, given that the major companies in which he invests often have "absolutely nothing to do with the UK economy".

Short-term uncertainty following 'Brexit' appears highly likely; but the Capital Economics report identified a greater threat, the lost productivity never regained since the financial crisis. "Regaining that lost ground" they argue "would offset even the most negative effects of Brexit on the economy".

OBR PREDICTS SLOWER GROWTH RATE

In Chancellor George Osborne's 2016 Spring Budget, he reported on the forecast from the Office for Budget Responsibility (OBR) that the UK economy would grow more slowly over the next five years than expected last November.

The OBR's Economic and Fiscal Outlook estimated GDP growth of 2% for this year, rather than 2.4%, based on lower future productivity. Furthermore, the report cut forecasts for annual economic growth for every year until 2020. The OBR offered reduced global demand among the reasons for the downgrades, as "since our November forecast, economic developments have disappointed and the outlook for the economy and the public finances looks materially weaker".

Weighing heavily on the OBR's press conference was the question of whether the UK would ever see productivity return to pre-financial crisis levels. OBR head Robert Chote cited extreme uncertainty around evaluating growth prospects; however, he highlighted the disappointing productivity growth of the last quarter of 2015, explaining that "we have placed more weight on that as a guide to future prospects".

The report follows other forecasts from the Bank of England and OECD with lowered UK growth projections. Financial markets appear to be concluding from this doom and gloom that interest rates will not rise until the end of the decade, with a potential near-term cut.

Meanwhile, the chancellor claimed that he was on target to reach a budget surplus by 2019-20. In its budget policy paper, HM Treasury acknowledged weaker productivity growth but highlighted the OECD's prediction that the UK would grow faster than any other G7 economy this year. It outlined plans for additional savings equivalent to 0.5% of total government spending, "to ensure the nation lives within its means". Meanwhile, a host of further initiatives were introduced, designed to reduce the deficit and bring reforms which would ensure "Britain is fit for the future".



Chancellor says UK still on target for 2019-20 surplus

MARKETS: (DATA COMPILED BY THE OUTSOURCED MARKETING DEPARTMENT)

Geopolitical issues continued to dominate global stock markets during March, causing uncertainty and rollercoaster volatility. Economic worries remained, albeit overshadowed by the long race for the White House, the European migrant crisis and terrorism in Brussels ahead of Britain's June EU referendum. The global oversupply of steel and consequent low prices brought the UK steel industry crisis to a head as the month ended.

After starting the year badly, losing 500+ points to below 5,700, the FTSE100 was back above 6,000 by end-January, but further turmoil followed in February and it was briefly down around 5,500. Post-Budget and the Brussels attacks, it was above 6,000 again, hit a 2016 high on 30 March, and finally closed the month on 6,174.90, a rise of 1.3%. Seeing similar volatility, the wider FTSE 250 gained 1.9% at 16,926.12. The AIM rose 2.6% to 710.78 during March.

With Clinton and Trump emerging as presidential frontrunners, contrasting visions of US foreign policy spooked Wall Street at times despite positive economic indicators. January-February angst about when the Federal Reserve might repeat December's interest rate rise also weakened equities, but March saw a strong recovery by the Dow Jones index. It closed at 17,685.09 for a one-month gain of 7.1%. The NASDAQ advanced 6.8% to 4,869.85.

Bourses in crisis-hit Europe also saw volatility; the Eurostoxx50 had declined almost 7% in January. Gyration continued as events unfolded and the European Central Bank deposit rate was moved more deeply negative in early March over deflation worries. However, the Eurostoxx50



Volatile stock markets mostly saw useful March gains

recovered 2.0% to 3,004.93 over the month. Tokyo equities also saw New Year falls but regained some lost ground in March as the Nikkei225 closed 4.6% higher than end-February, at 16,758.67.

Currency markets reflected diverse economic perspectives, the US dollar surrendering some early-2016 gains against sterling, losing about 3.6% to \$1.44, and sterling weakening a further 0.8% against the euro to €1.26. Global supply and demand uncertainties continued to haunt the oil market, but Brent crude ended the month 10.1% to the good at \$40.33. Nervousness created intermittent demand for gold, which ended virtually unchanged at \$1,232.69.

UK UNEMPLOYMENT RATE MAINTAINS DECADE LOW

In March, the Office for National Statistics (ONS) reported that in the three-month period to January 2016 the number of people in the UK who were not in work but seeking and available to work, dropped to 1.68 million, down 28,000 from the previous quarter (Aug to Oct 2015).

Maintaining a ten-year low in percentage terms, the rate of unemployment was stable at 5.1%. The figures showed that a total of 31.42 million people were in employment, which represents an increase of 116,000 on the previous quarter and an increase of 478,000 compared with one year earlier.

Regionally the North East of England had the highest unemployment rate (7.8%); the lowest rate was recorded in the East of England (3.6%). The EU's statistical agency, Eurostat, reported that in January the Eurozone's unemployment rate fell to 10.3%, its lowest rate since August 2011.

Across the pond, the US Labor Department reported in March that 242,000 jobs were added in February, far exceeding the prediction of 190,000. The unemployment rate in the US is at an eight-year low of 4.9%.

From a wage growth perspective, ONS data showed a 2.1% increase in average weekly earnings including bonuses for employees in Great Britain, in the year to January.

It has been reported that Scott Bowman, UK economist at Capital Economics, stated that the UK's job recovery remained in "full swing" but cautioned that wage growth was "still fairly subdued by past standards, especially considering how much the labour market has tightened recently".

INTEREST RATES HELD AGAIN

When the Bank of England's nine-strong Monetary Policy Committee (MPC) met on 16 March, they unanimously voted to maintain the Bank Rate at 0.5%. Taking into consideration the likely persistence of economic headwinds, the MPC members agreed that when the Bank Rate does rise, it was expected to do so more gradually and to a lower level than in recent cycles.

The rate decision comes at a time when global growth concerns abound, typified by the OBR's (Office for Budget Responsibility) downgrade of the UK growth forecast. In addition, uncertainty surrounding the EU referendum in June seemed to be one of the main drivers of the recent decline in sterling, which has depreciated by around 9% from its peak in mid-November 2015.

The Chief Economist at financial information firm Markit, Chris Williamson, was quoted as saying that the decision to retain the rate was "no surprise", elaborating, "The Bank highlighted how uncertainty regarding the June vote on the UK's membership of the EU is exacerbating wider concerns about the domestic and global economic outlook."

"Policymakers noted how spending by businesses and overall demand in the economy could weaken as a result of the intensifying Brexit fears, which would worsen an already shaky start to the year."

At the same meeting the MPC also unanimously voted in favour of the proposition that The Bank of England should maintain the stock of purchased assets financed by the issuance of central bank reserves ('quantitative easing') at £375 billion.

It is important always to seek professional advice before making any decision regarding your finances.

If you would like any assistance, please contact us. Nothing contained in the articles should be considered as giving individual financial advice.