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INVESTMENT NEWS

Economic Commentary

During the last few months I have been to a number of economic and investment symposiums and have jotted down some interesting facts which have affected my view as to the current economic background which will ultimately have an effect on client investments.

UK

Unemployment

Many political commentators are waxing lyrical about immigration and making more use of our endemic workforce. The Bank of England statistics have the unemployment level now at around 4.3% of the workforce. They and most business leaders consider this effectively full employment. In other words if you are currently unemployed then with some exceptions you are unemployable.

Productivity

The UK reached peak output efficiency in 2008. By 2018 we produced slightly more output but needed 2.7 million more people to achieve it. During that same period we imported 2.2 million foreign workers.

From 1998 to 2008 there was a 25% growth in UK productivity. From 2008 to 2018 productivity grew by only 4.5%

Wage Growth

Wage growth is currently running at around 3.1% with average inflation at 2%. The disproportionate increases to the living wage are causing issues for hotels, tourism and social sectors including nursing homes.

Long Term Base Rates

The BOE have twice re-iterated at recent meetings that the old average of base rates of between 3% and 5% was now considered outdated. Their expectation of normal base rates in future is between 1% and 2%. This level is indicative of a general view that returns are going to be much lower in the next 10 years than they have been during the slow recovery post the 2008 financial crisis.

There is concern that many “zombie” companies will fail as interest rates rise and they cannot afford the interest on their debt burden.

INVESTMENT NEWS

Quantative Easing (QE)

QE will continue but at a lower level than in the crisis. It is not anticipated QE will stop until base rates are back up to around 1.5%.

Residential Property

We are now very much in a buyers market with prices continuing to fall rather than rise. There has been a big growth in abortive sales as buyers want reduced prices. Let property is showing increasing yields as landlords sell property to reduce debt due to the change in tax treatment of same.

The 3% tax on second homes means the rental market is likely to contract rather than expend in the next few years.

Debt & Savings

Sovereign debit is now around £1.8 Trillion.

Student Debt (much of which will never be repaid) is around £300 billion (2017).

UK Savings rates are 1.7%.

Europe

Europe still has huge issues with debt and the inequality of the common currency. There is also no obvious successor to the UK with regard to the £8 billion contribution to the EU budget. Italy's new government seems determined to challenge the tight fiscal rules with its new budget which includes a 2.4 percent public deficit target. The budget defies the European Union's fiscal discipline rules, but the government insists it will drive investment yet another sign of the ECC stresses.

USA

Is currently a success story however the mid term elections should see a shift of power away from Donald Trump which may or may not be a good thing for domestic and world economics.

Emerging Markets

Many are affected by the strong dollar, China is restructuring and retaliating against Trump's tariffs but long term most of the world growth will come from this sector.

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Summary

The world outside Europe / the UK continues to ply it's trade. Economic cycles and trade wars aside the global economy looks in pretty good shape. Bad news always makes better headlines than good news and with no safe places to invest capital for a real return its "Hobson's choice" to remain invested if you need your savings to maintain their real value.

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