

The Saturday Economist

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GDP figures for Q4 2011 - growth up by 0.8%

Government borrowing hits £1 trillion

Government borrowing in December £13.7 billion

Governor's speech in Brighton - all crises end sometime

IMF marks down world growth forecasts

World Bank casts gloom over world recovery (that was last week)

Oli Rehn clears the uncertainty over Greece?

Forecasts for 2012 - latest forecasts from the HMT poll

Saturday January 28th 2012



John Ashcroft is Chief Executive of pro.manchester, a director of Marketing Manchester, a member of the Greater Manchester Chamber of Commerce, the AGMA Business Leadership Council and a visiting professor at MMU Business School specialising in Macro Economics and Corporate Strategy.

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London School of Economics
London Business School with a
PhD in macro economics from
MMU.

The Week in Review

This week in Davos, Oli Rehn the European Economic and Monetary Affairs Commissioner cleared the uncertainty about the euro announcing - a deal to rescue the Greece from economic collapse would be announced before the end of the month. "If not today, then over the week-end and preferably in January and not February." Yeah thanks for clearing that up Oli.

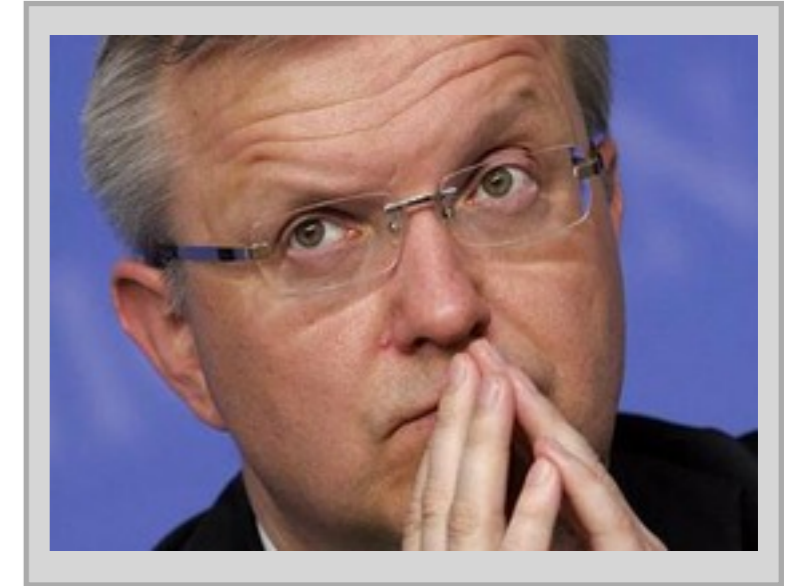
In the UK there was lots of economics new this week :

The GDP figures for the final quarter of the year were slightly worse than expected but only because the ONS had revised up the out turn for Q3. The year on year figures suggest there will be no double dip recession. page 3.

Government borrowing figures for December suggest the full year figures will be below OBR projections around £122 billion. Page 4.

The Governor gave a speech in Brighton - a sort of all bad things must come to an end. (The Governor's term in office ends in less than eighteen months).

Last week the World Bank added to the gloom in the economic outlook, this week it was the turn of the IMF to chill the optimists into submission. Page 6



Oli Rehn the European Economic and Monetary Affairs Commissioner praying for a solution to the Greek debt crisis

Saturday January 28th 2012

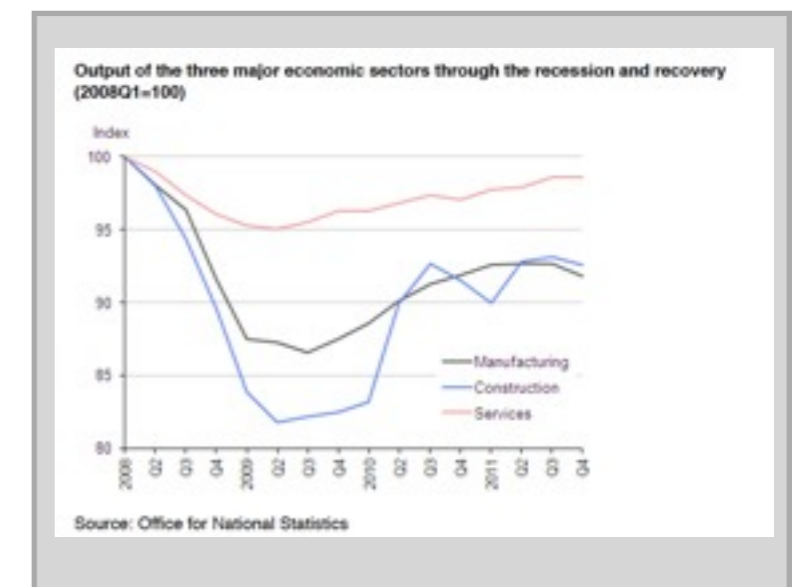
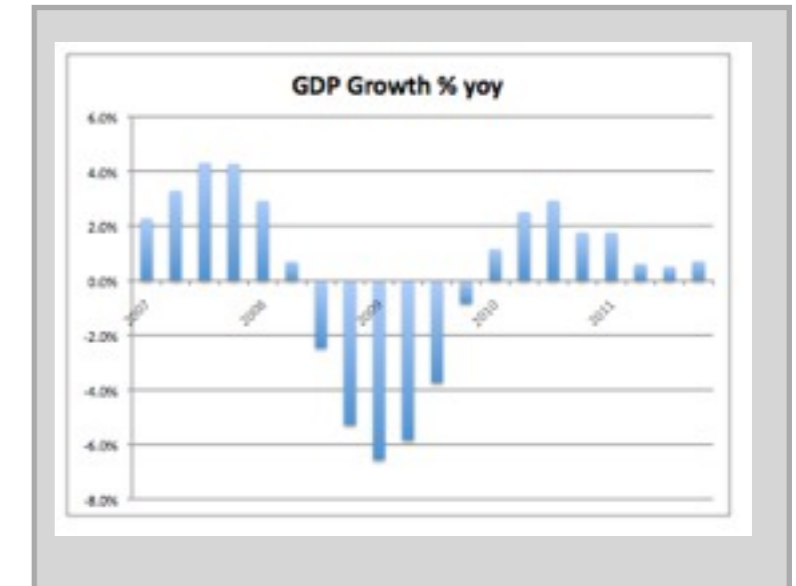
GDP figures Q4 2011

GDP figures this week added to the gloom for some as GDP (quarter on quarter) fell by 0.2%. This twice the level of the fall expected but the ONS cheated forecasters slightly by revising up the Q3 figure 0.1%. The good news - year on year the economy grew by 0.8% in the fourth quarter and for the year as a whole growth was up by 0.9%. The economy is flatlining at just sub 1% growth but this the reality of 2011 and the expectations for 2012.

If debt can be reduced, with no big increase in unemployment in the process, this is the outlook for the next few years.

No reality in the rebalancing rhetoric however, manufacturing was down compared to prior year but service sector growth was up 1.6%. Business / financial sector growth was up 2%. This is no time to put sand in the fuel lines of the engine of growth, hoping for a manufacturing and export miracle which will never materialise. It really is time to accept the reality of economic growth in the UK.

It is a service sector economy, dependent on a strong business, banking and professional services sector.



Saturday January 28th 2012

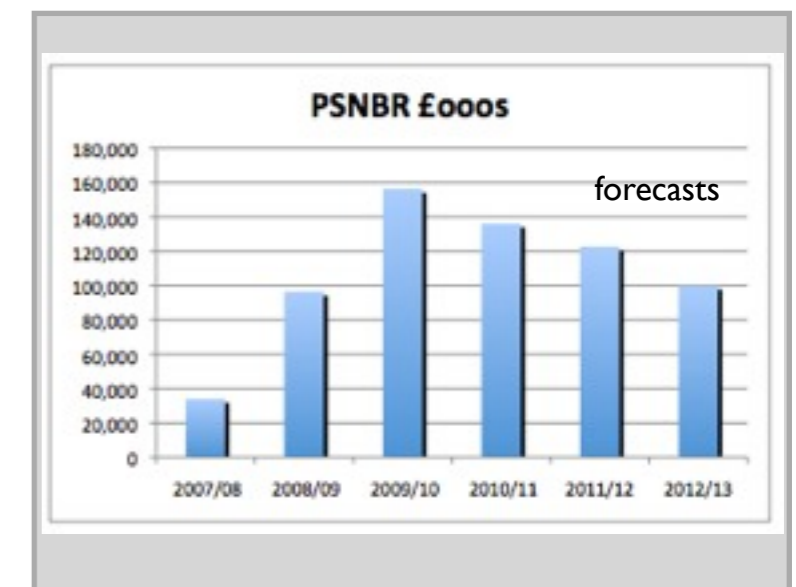
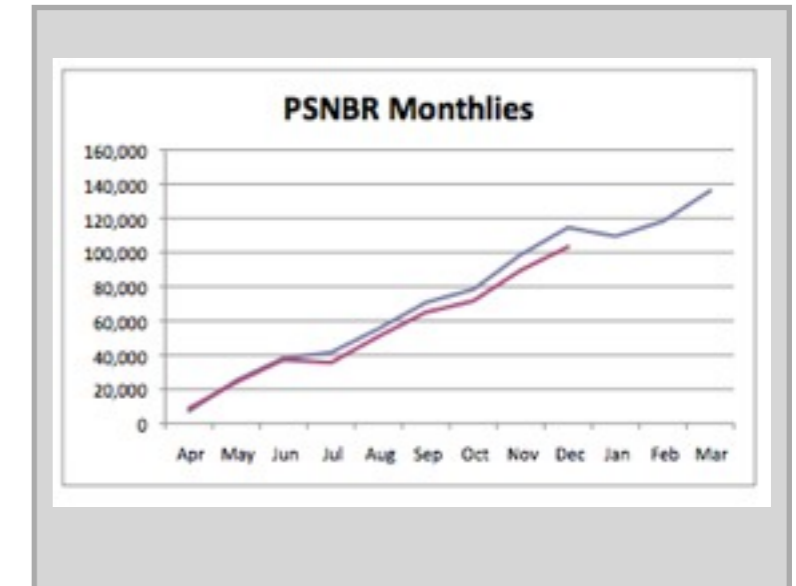
Government borrowing hits £ 1 trillion in December

This the headline from the office for National Statistics as the borrowing figures were released this week.

Government borrowing in December was £13.7 billion compared to £15.9 billion in December 2010. For the year as a whole borrowing was £103 billion down by 10% over the same period last year.

As a result our borrowing forecast for the financial year is £122.5 billion, a reduction of £11 billion on prior year and slightly below the OBR forecasts. VAT revenues were up by £11.5 billion (+16%) over the period but taxes on income, profits and capital gains were pretty flat. Don't expect any reduction in VAT to kickstart spending anytime soon.

Expenditure on the other hand was up by just 2%, interest payments increased by 17% to £37.8 billion on track for £50 billion in the financial year. The average coupon on government debt is 4.5%, current low yields will only impact on new gilt issues, not the outstanding £900 billion of conventional stock outstanding, as some would have us believe.



Saturday January 28th 2012

Governor's speech in Brighton

The Governor of the Bank of England made a speech in Brighton this week suggesting there is no reason to despair. All crises come to an end [and my term of office ends on the 30th June next year], he should have added.

“After the steepest downturn in output since the 1930s, the UK economy is in the process of rebalancing. Starting from a position of excessively leveraged balance sheets, the path of recovery is likely to be arduous, long and uneven.

The position of the world economy, especially in the euro area, is serious. Helped by the right policy actions, the UK and world economies can and will recover. And when they do so, they will be on a more sustainable footing than at any point in the past fifteen years.”

From the Governor of the Bank of England, that's a pretty positive message. On the other hand the the IMF were in no mood to improve sentiment.



“All crises come to an end and my term of office ends in June next year”

IMF marks down growth forecasts for the world economy

Saturday January 28th 2012

With intensifying strains in the euro area weighing on the global outlook, the International Monetary Fund (IMF) sharply cut its forecast for world growth in 2012, saying prospects have dimmed and risks to financial stability have increased. The global growth outlook for this year is just 3.3 percent.

“The outlook for growth is mediocre, and it could be worse,” said Olivier Blanchard, the IMF’s Economic Counsellor. At a press conference in Washington, Blanchard said that “the world recovery, which was weak in the first place, is in danger of stalling. The epi centre of the danger is Europe, but the rest of the world is increasingly affected.” He told reporters there was an even greater danger if the European crisis intensified. “In this case, the world could be plunged into another recession,” Excellent.

Overall, activity in the advanced economies is now projected to expand by just 1.2 percent in 2012 and 1.9% in 2013. In the event of a Euro crisis every country will be affected.

The Euro is the second largest reserve currency after the dollar. Accounting for 25% of world reserves, Euroland is too big to fail. The world needs the Euro. It is less obvious the Euro needs the Greeks.



Saturday January 28th 2012

What does the year hold?

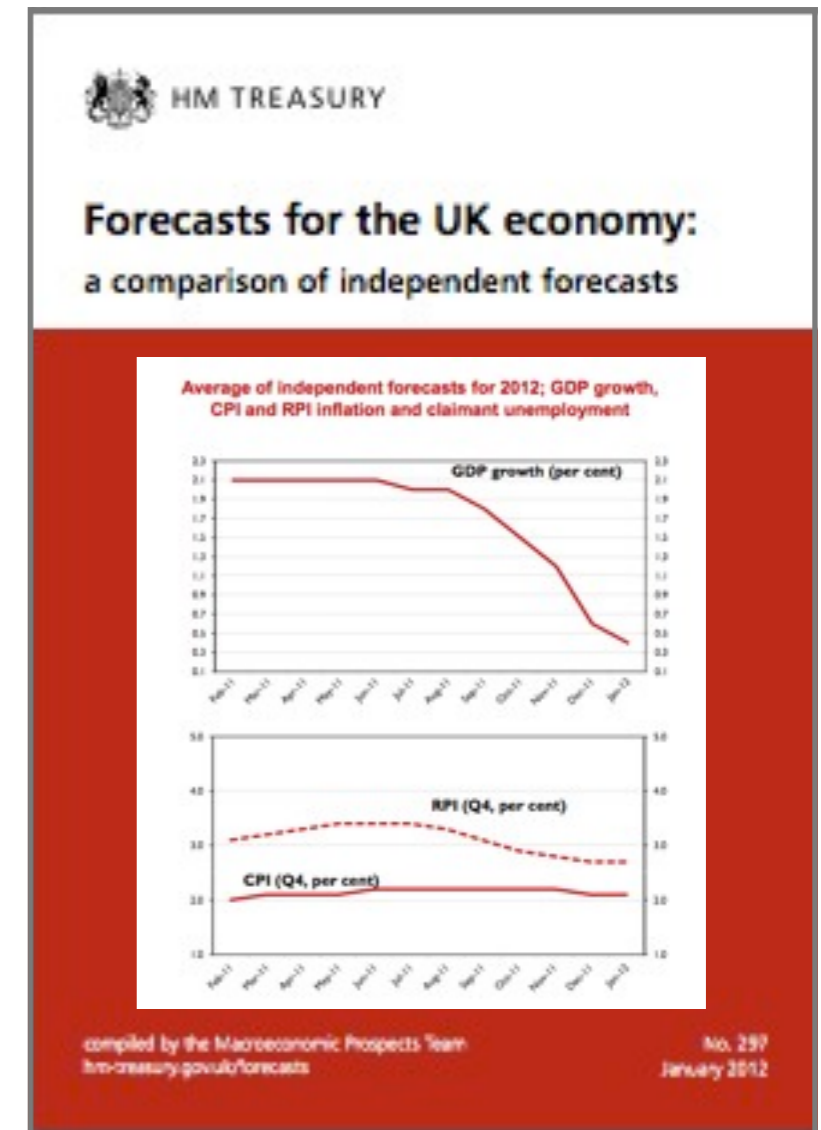
Latest forecasts from the HMT poll of forecasters (18th January) suggest growth will be just 0.4% in the year, with inflation falling to 2.1% CPI basis. Average earnings will increase by 2.4% and the oil price will average \$106. Claimant count unemployment is expected to increase to 1.8 million and the borrowing forecast (PSNB) will hit £118 billion just £2 billion below the OBR forecast in November.

Round up of the Week

That's it - a round up on the economics news from the Saturday Economist. More news and updates next week.

Details of our current forecasts : The UK in Black and White Forecasts for the UK Economy 2012 - 2015 can be found on this web site and on slideshare.

<http://www.slideshare.net/jkaonline>



Latest Economic Indicators

Saturday January 28th 2012

Indicator	Period	Latest	Notes	Source
Inflation CPI	December	4.2%		ONS
Inflation RPI	December	4.8%		ONS
Inflation RPIX	December	5.0%		ONS
Earnings	November	1.9%	trailing three months	ONS
Retail Sales volume	December	2.6%		ONS
Retail Sales value	December	6.2%		ONS
Unemployment	November	2.68	LFS Million trailing 3 months	ONS
Unemployment %	November	8.4%	LFS trailing 3 month	ONS
Claimant count	December	1.6m	Million	ONS
PPIs output	December	4.8%	Manufacturing prices (output)	ONS
PPIs input	December	8.7%	Manufacturing prices (input)	ONS

ONS : Office for National Statistics, LFS : Labour Force Survey

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Page 9

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Saturday January 28th 2012

The Saturday Economist

The Saturday Economist is a round up of the week's economics news for the UK published on the web site johnashcroft.co.uk. The information is also available as a PDF download.

The information was originally published in short form in the Sunday Times and Croissants weekly blog post and has been expanded following requests for more information. To receive the weekly SCAT e-mail join me on LinkedIn.

The material in the Saturday Economist is based upon information which we consider to be reliable but we do not represent that it is accurate or complete and it should not be relied upon as such. We accept no liability for errors, or omissions of opinion or fact.

In particular, no reliance should be placed on the comments or trends in financial markets. The publication of this document should not be construed as the giving of investment advice.

Forecasting is fun and subject to frequent revision.

JKA

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The image shows the cover of a report titled "The UK Economy in Black and White 2007 - 2015 Forecasts". The cover features a list of economic indicators on the left: GDP, Inflation CPI, Earnings - whole economy, Unemployment - claimant count, Unemployment - LFS base, Base Rate, Ten Year Gilt, Oil Price - Brent crude, PSNR £, PSNR £, Manufacturing, Retail Sales, On line sales, Trade in Goods, Trade in Services, Current Balance, House Prices, and Exchange Rates. A portrait of John Ashcroft is visible in the top right corner. The title "The UK Economy in Black and White 2007 - 2015 Forecasts" is prominently displayed in the center. Below the title, there is a disclaimer: "The material is based upon information which we consider to be reliable but we do not represent that it is accurate or complete and it should not be relied upon as such. We accept no liability for errors, or omissions of opinion or fact." and a bio for John Ashcroft: "John Ashcroft is Chief Executive of pro Manchester, a director of Marketing Manchester and a visiting professor at MMU Business School specialising in Macro Economics and Corporate Strategy. Educated at the London School of Economics and London Business School with a PhD in macro economics from MMU." The website www.johnashcroft.co.uk is listed at the bottom. The date "January 2012" is printed in the bottom right corner.

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