ECONOMICREVIEW
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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.

Inflation inches higher

UK inflation, as measured by the Consumer Prices Index (CPI), rose to 0.1% from its previous level of 0%, as reported by the Office for National Statistics (ONS).

However, core inflation, sometimes referred to as the underlying measure, which excludes any price movement in food, alcohol, tobacco and energy, rose to 1.2%, again an increase from the previous month's figure of 1%.

The wider Retail Prices Index (RPI), which includes housing costs, remained unchanged at 1%. The importance of this figure is that it is the index measure used to calculate rail fare increases for the coming year

Inflation remains very subdued

The ONS reported that whilst there was a small rise in the cost of clothing, this was more than offset by a fall in the prices of food and non-alcoholic drinks.

The CPI figure has now been hovering around zero for the past six months, having initially turned negative in April this year, for the first time since 1960.

Commenting on this fact, a spokesman for the ONS, Mr Richard Campbell was quoted as saying: *"This is the sixth month running that headline inflation has been at or very close to zero.*

"While households will have seen individual prices rise and fall, the overall shopping basket bought by the country remains little changed compared with a year ago."

With the inflation rate remaining sanguine, and even given the fact that the Bank of England has set an inflation target of 2%, it is unlikely that interest rates will be raised any time soon, so this is good news for borrowers and mortgage holders.

One of the major factors in this global scenario is the fact that the price of 'Brent Crude' Oil has fallen below $50.00 a barrel and China has devalued its currency three times this year, increasing global deflationary forces.

All eyes on interest rates

Despite the roller-coaster performance of the world's equity markets late in August (see 'Markets'), precipitated by China devaluing the Yuan for the third time this year and amid global fears that the world's second largest economy is slowing, the Governor of the Bank of England (BoE), Mark Carney has announced that this will not sway his thinking on his domestic UK economic plans.

His particular attention has been on plans for the BoE's interest rate policy. Given that the bank rate has remained at a historically record low of 0.5% for over six years now, some analysts believed that the recent market turmoil would push back any latent decision to raise this rate.

He was quoted as saying: *"The direct exposure of the UK economy to China is relatively modest."* He went on to add that: *"Developments in China are unlikely to change the process of rate increases."*

In the second quarter of the year the UK's economy has been relatively healthy, albeit the usually dominant services sector has lost some of its momentum. Also the relative strength of the pound is starting to harm export volumes. All of these considerations will need to be carefully considered before any rate rise decision is made by the Bank.

The interest rate issue has been concentrating the minds of analysts in the last few weeks, as all eyes are on the US Federal Reserve, to see if they pre-empt the BoE and raise their interest rate in September. The case is finely balanced, as William Dudley, the President of the Federal Reserve Bank of New York recently stated that the case to raise rates there is now less compelling.

Elsewhere, the European Central Bank (ECB) will be meeting in early September to discuss their interest rate policy, however, most observers believe that, given the sanguine inflationary environment that exists in the eurozone, any upwards movement is unlikely to be announced then.

When will we see a rise?

Markets: (Data compiled by The Outsourced Marketing Department)

August saw a turbulent month across all markets with China's devaluation of the Yuan, for the third time in a year, precipitating dramatic equity market volatility and losses in their domestic market which then escalated across the globe on fears of a Chinese economic slowdown.

The initial (probably knee-jerk) reaction was for the FTSE100 to lose 10% of its value in a week, losing nearly 5% in one day alone. However, these losses were partially recouped, with August 25th seeing a rise of 182 points, and August 27th a rise of 212 points, its biggest daily rise for four years. It finished August at 6,247.9, to finally record a monthly loss of 6.7%. The wider FTSE250 fared slightly better, but still lost 3.22% to 17,108.4.

The American markets simply followed suit as the Dow Jones lost 6.57%, closing August at 16,528.03, with the technology based Nasdaq also dropping 6.86% to 4,776.51.

Likewise, European markets were not immune as the Eurostoxx50 ended the month on 3,280.78, to record a loss of 8.88% for the month.

Meanwhile, the Japanese Nikkei225 index also dipped 8.23% in the month, to close at 18,890.48. However, this is still 8.25% up on the year to date.

On the foreign exchanges, Sterling was also out of favour, sliding 1.9% against the US Dollar to $1.53 and 4.2% against the Euro to €1.36. The Euro currency also improved against the US Dollar, gaining 2.7% to $1.13.

Gold saw some demand, probably reflecting its safe-haven reputation, as it gained 4.1% to end August at $1,141.49 a troy ounce.

Black gold - Oil, as measured by the Brent Crude benchmark, had a quiet month, rising only marginally to $52.62 a barrel, but is still down 8.2% on the year to date.

All eyes on China

House prices continue to rise

The latest house price inflation figures show annual price increases of 5.7% in the year to June. Whilst this was only a modest increase from the previously reported figure of 5.6%, an increase was recorded across all areas of England and Wales.

Since annual house price increases peaked at 12% in September 2014, there has been a steady longer-term downward trend, however, this latest figure reversed that.

The Office for National Statistics (ONS) records average house or flat prices in June rose to a record high of £277,000.

Although stating that prices rose in all regions, there were, as always, wide regional variations. The highest price rises were seen in Northern Ireland, where they saw average price increases of 9%. Across England as a whole, the figure was 6.1%, whilst Wales recorded only a modest rise of 0.8%. Scotland, meanwhile, saw prices fall by 0.6%.

Demand still outstrips supply

The ONS cited strong housing demand and weaker new house building supply as being major factors in this increase, as they also reported new house building across the UK rose by only 4.6% over the last twelve months, which is the lowest rate of annual increase seen since March 2013. This fact is further compounding the overall housing shortage.

At the same time, The Royal Institution of Chartered Surveyors (Rics) also reported that the number of homes - both houses and flats - becoming available on the market for sale had sunk to a record low.

These latest figures present a serious conundrum for potential first-time buyers as, given that annual house prices are now rising by 5.7% across the land, wages are only rising by 2.4%, possibly condemning them to the rental market rather than outright purchase.

Fewer UK jobs in April – June quarter

Wednesday, August 26th saw the release of the latest UK unemployment figures by the Office for National Statistics (ONS).

There are currently 1.85 million people unemployed (people not in work but seeking and available to work). This is an increase of 5,000 from the January to March 2015 figures. However, this still represents 221,000 fewer people out of work than reported a year earlier.

As a percentage of the population, this represents an unemployment rate of 5.6%, which is little changed from the January-March figure. A year earlier this figure was 6.3%.

The region with the highest rate of unemployment was the North East with a rate of 8.1%, whilst the lowest region was the South West at 4.4%.

Youth unemployment (those aged 16 – 24 years old) rose to 16%, a slight increase from the previous reported 15.9%, but lower than the figure a year earlier of 16.9%.

Reporting on their findings, Mr David Freeman, an ONS statistician said: *"This is now the second consecutive time we've reported fewer people in work on the quarter.*

"While it's too early to conclude that the jobs market is levelling off, these figures certainly strengthen that possibility. Growth in pay, however, remains solid."

On the flip side of the coin, there are currently 31.03 million people in work, which was an increase of 354,000 from a year earlier and represents 73.4% of the population.

The Work and Pensions Secretary, Mr Iain Duncan Smith, said: *"Thanks to our long term economic plan we have already seen two million more people in jobs since 2010.*

"On top of that, today's figures show job vacancies at a near record high - evidence of the continued confidence in British businesses, and potential for further growth in the UK economy."