

Economic Views for Investors

by Roger Nightingale

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People enjoy hunting
witches, and tormenting
those that are caught

For a while, stories about the incompetence and venality of bankers had been driven from the front pages of our newspapers by reports of the incompetence and venality of Parliamentarians. A temporary respite only. At the end of last week, a Committee of the latter reporting into the affairs of the former found damning evidence of personal greed and corporate irresponsibility.

Especially when they've
been blighting the crops and
souring the milk

Lord Myners came in for particular criticism. He had, he said, been too busy to read the relevant papers! It probably wouldn't have made much difference had he been less busy. He demonstrated in subsequent testimony that he understood little of the economics crisis provoked by the banks, nothing of the role played by his chums on their boards. Ineptitude coupled with naïvety. He was not the sort of person who should have been appointed City Minister.

The Lords Myners and
Turner have much for which
to answer

Lord Turner was also criticised. Another of Tony Blair's favourites, he was judged complacent and ineffective before the crisis; complacent and ineffective afterwards. Like Myners, he saw no defect in himself or the system. Asked about the future of the financial services sector, he said that it'd be good to have lots more regulation!

Not as much, though, as
Black Knight, Goodwin

And the reprobates who'd previously run the banks? What was to be their fate? Nothing worse, apparently, than exclusion from the R&A. No financial penalty, no official censure. They were to keep their ill-gotten millions and even their "honours." Brown's assertion that there should be no reward for failure proved to be as empty as most of the other promises he'd made.

By comparison, appalling
economics numbers are a
relief

Meanwhile, the economics data, though mixed, were awful. All that could be said in their favour was that, in the US, the UK and Japan, they were marginally little less awful than they had been. In much of the rest of the world, on the other hand, the plunge seemed still to be quickening.

Difficult not to be cheered
by Europe's tribulations

Europe was the most obvious problem area. Its Central Bank was determined to keep credit tight and currency high. Its Commission, meanwhile, favoured fiscal orthodoxy and social scleroticism. Little wonder that the region's economics numbers were dire.

Those for emergers lie
mostly ahead

It was the developing world's numbers, though, that raised most eyebrows. A year ago, the consensus had been optimistic. The Emergers, they said, China in the van, would survive with a degree of composure. They'd be all the stronger for having had their mettle tested!

Their progress is usually
lagged and high beta!

Such nonsense! The outlook for China and India, for Latin America and Eastern Europe, is not at all good. They'd been substantial beneficiaries, in the growth phase, of Foreign Direct Investment. Typically, a third of their gross investment had been financed by overseas corporations. No longer. The figure has dipped almost to zero.

Eastern Europe is demon-
strating the phenomenon

Employment prospects are being undermined and consumption is following suit. Concurrently, exports have collapsed. Governments are suffering huge declines in tax revenues and are having (China temporarily excepted) to reduce their spending accordingly.

An unmitigated disaster: it
must cut the ties to the ECB

Last week, Latvia reported a first quarter setback in GDP of 18% (55% at an annual rate). Why so bad? Because the prior growth had been financed by borrowed money, which had dried up at the same time that FDI had. And, to make matters worse, the authorities had been attempting to link the currency to the euro!!!

LatAm will fare less badly

Are others going to fare as badly? No. But some will come close. As always, Latin America is vulnerable. The region isn't as dependent on commodities as it used to be, and its fiscal affairs are in relatively good shape these days. But that won't prevent the slide.

But China and India will
disappoint

It's heavyweights China and India that are the major cause for concern. Hitherto, governments and analysts have conspired to present a picture of economics health, of immunity from the malaise afflicting others. Not for much longer. When first quarter GDP numbers are released, when researchers calculate seasonally adjusted estimates, the pretence will be difficult to maintain.

Equities here will get better;
politics here can't get worse

The good news is that in a number of old developed countries, Britain, for instance, the news will continue to get less bad. And their stock market indices, London's, for instance, will continue their hesitant advance. Politics will help. If Labour should be slaughtered in Local Authority and Federal European elections (UKIP being the big winner), a new and better epoch might have dawned.

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