

Economic Views for Investors

by Roger Nightingale

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Economics projections based solely on wishful thinking tend not to be accurate

The *happy-clappy* consensus was shocked and disappointed by news that Britain's GDP had fallen again in the third quarter of 2009. Prior to the announcement, economists had been speculating only on the size of the advance. They had wondered whether it would be enough to change the policies of the Bank of England. They had speculated about the impact it might have on the popularity of political incumbents!

Logic has many virtues; it should be used more often

In the event, the forecasts were hopeless; they constituted another telling indictment of the forward-looking abilities of economists. Why had they been so optimistic? Which areas of activity did they suppose were growing?

In the third quarter, personal spending was weak

Not consumption, presumably. With pay settlements moderating, employment falling, and savings rising, the personal sector lacked the wherewithal to spend. Indeed, retail sales (as reported by official statistics and confirmed by company results) were seen to be drifting sideways.

And corporate spending weaker

And not capital spending. The banks didn't want to lend to companies, and companies were reluctant to borrow from banks. Capacity was deemed to be excessive. The difficult was not in producing stuff, but in selling it. Cash resources were to be protected not depleted—fixed capital spending was scaled back, inventory likewise.

Overseas deliveries declined moderately

What about exports? Very weak. Demand elsewhere in the world was fragile. The overseas sales of each of the majors were tumbling. Britain's might have been holding up better than most. But that meant a sizeable decline nevertheless.

And so did public expenditure

The only possibility for a quickening in GDP came from public spending. It had surged at the end of 2008, but there were hints that it had lost momentum more recently. Why? Because finance was lacking, and so was political will. The Cabinet conceded that the trajectory of the National Debt was appalling and, worse, it realised that most voters loathed the mollycoddled public sector worker.

Darling has been stitched up; he'll find life even tougher

So what happens now? How will the Chancellor explain away his earlier optimism? He and the Prime Minister were claiming only a few weeks ago that they knew how to remedy the economics hiccup. They'd implemented the therapy and it remained only to wait for it to work. Nonsense, of course. They'd neither of them a clue about the economy's inclinations before the crisis struck, while it was doing so, or afterwards: a truth universally to be acknowledged.

King has hit him already. Others will do so shortly

Was that why Governor King, speaking in Edinburgh a few days earlier, had distanced himself from Government policies? Did he calculate that he might thus keep his reputation (and possibly his job) when those in the Treasury (devoutly to be hoped) were losing theirs? Presumably, he'll also have been in touch with Cameron and Osborne!

Will the Tories ever break cover? Will they acknowledge past error . . .

What do they now think about the economy's prospects? A year ago, they were supportive of the bail-out of delinquent banks. They were enthusiastic proponents of higher public spending as well. Are they still? Of course not. They can't recognise the right policy beforehand, but they can identify the wrong one afterwards.

. . . and aspire to future truth? Will they take their banking chums to task?

What they have now to do is reverse their prior stance without acknowledging that it was wrong! The Governor may help them do so. He'll argue that a bank that's too big to fail is too big to exist. The first priority, therefore, will be to make them smaller. They'll be instructed to sell off their non-money-transmission activities. They'll be told that organisations that take several working days to move funds from one bank account to another cannot be deemed to be adult members of the financial community.

Treat them like the *posties* they so closely resemble?

Those working in the banking sector have to be treated in much the same way as civil servants and post office workers. They have to be told that it's no longer acceptable to sequester resources from the rest of society to boost their own living standards. If reason and rationality fail, the firm slap of joblessness might do the trick.

A backbone would be useful

How does Cameron see these things? Is he a Thatcher or a Brown? Will he fight or compromise? It'd be useful for the electorate to know. He really ought to say something about the public sector, about how they can be made to contribute resources rather than just to consume them.

Equities to continue to climb!

Despite the grim economics news, the equity markets held up fairly well. They'll likely continue to do so for a while. The FTSE at 6000, by spring, is an easy target; 7000, by the following winter, not impossible.

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