

Economic Views for Investors

by Roger Nightingale

4th September 2009

Many forecasters wait until something's happened . . .	Last week, the OECD updated its forecasts for the world economy in the remainder of 2009. It noted the "mostly favourable" data published over the last couple of months and, using the logic of the driver who judges the road ahead by what he can see of it in the rear-view mirror, declared victory in the struggle against recession. Growth would resume in the second half of the year, said the august organisation, and might return almost to normal in 2010.
. . . before saying it's going to.	The public reaction to the report was muted. The majority paid it no attention at all. But there were two tiny minorities who showed some interest. Incumbent politicians were delighted and actuarially-inclined economists distressed. The one, appreciating that recession had undermined their electability, hoped for a reversal on both fronts. The other, recognising the OECD's dismal track-record in economics forecasting, prepared for a long hard winter.
The OECD, for instance.	
Not all the numbers add up!	Very few were prepared to undertake a forensic examination of the data. Nobody asked why the imports numbers for India and China had been so weak when internal demand was reportedly so strong. Had industrial production really quickened without prompting corresponding rises in the demand for imported raw materials and capital goods? Had real wages really grown without causing more insistent appetites for foreign consumer goods?
Employment is a particular mystery.	It wasn't just the emerging world's numbers that looked strange. Germany (and much of the rest of Europe) had reported large declines in GDP, but barely perceptible reductions in employment! Presumably, productivity had plunged. But temporarily or permanently? If the latter, Europe was a write-off. If the former, there was going to be a surge in unemployment in coming months. What price then the recovery of which the OECD spoke?
In any event, economies seem prone to debility.	It may be significant that central bankers (albeit founder members of the failed forecasters club) were somewhat less optimistic. They realised that the "response" of the global economy relative to the "stimulus" had been very disappointing. It had taken only a touch on the brakes to cause the vehicle to come to a halt, but an unprecedentedly wide opening of the throttle to cause it to edge forward again. The ratio was not encouraging.
And are not responsive to treatment.	The economy seemed predisposed to anaemia. The doctors had run out of ideas. Fiscal therapies were an obvious waste of time and monetary ones were going the same way. A year from now, it was possible that the world would be as untreatable as the US in the thirties, Japan in the nineties.
The UK's prospects are poor.	It's a depressing outlook for virtually all countries, but particularly bleak for Britain. The country is handicapped by an over-borrowed personal sector and an over-manned public sector. Both will be corrected in the years ahead, but it'll be a painful process. When will it start? Probably not until Brown and his scallywag Cabinet have been dismissed.
The Government clueless . . .	They'd like to survive until next summer. But they're so accident prone that it's not certain that they will. In addition to the economics crisis, they have to contend with one relating to foreign policy.
. . . on foreign affairs as much as economics policy.	The war in Afghanistan is a running sore. But it's taken months of official incompetence and scores of fatalities to prompt anyone into action. Finally, a Parliamentary Private Secretary, an old soldier, has resigned. The first, hopefully, of many.
Afghanistan and Lockerbie!	Concurrently, the Prime Minister and Home Secretary have found themselves wallowing in a mess of their own making in connection with the Lockerbie release. It's fairly clear that they (and the unspeakable Mandelson) were party to the negotiations. It's fairly clear also that a number of BP's advisers (formerly employees of MI6) were involved.
Will the PLP revolt? Of course not.	There's a nasty smell. The truth will eventually come out, but probably not for years. It's only if the PLP's backbenchers should decide they've had enough, that they can't stand the public's contempt for them any longer, that there'll be a near term resolution. What's the chance of that? What chance that Blair's Babes, grown middle-aged in office, will chose honour in preference to expenses? Not a lot.
Thankfully, valuations are going to rise.	The good news is that the securities markets are likely to continue to rise. It won't be an entirely smooth run, but the chances are that the advances will keep coming. Monetary expansion might not boost economies, but it'll lift valuations. Investors won't be able to ignore the conjunction of negative inflation, negligible interest rates and satisfactory profits.

Contact us... Visit our website www.sippolutions.com for further information on our SIPP products and services. Alternatively, contact Roger Nightingale on 01858 419300 or email rnightingale@sippolutions.com or visit www.rogernightingale.com.

Disclaimer

This document is the opinion of Roger Nightingale and does not represent the opinions of Pointon York SIPP Solutions and is for your private information only. We are not soliciting any action based upon it and whilst information contained herein is based on sources we believe to be reliable, its accuracy is not guaranteed and may be incomplete. Any opinions expressed are Roger Nightingale's current opinions as of the date appearing on this material only and are subject to change without notice and might not be followed up on a specific ad-hoc document. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Pointon York SIPP Solutions. Investment professional use only. Not for public distribution.