



mortimer burnett
certified accountants and business consultants

Economic update

With the UK economy now in a deeper double dip recession than most expected coupled with the ongoing challenges around the Eurozone, it is evident that while we enjoy the peak performances of athletes in the Olympics and Paralympics, our economy is far from growing or healthy. Against this background we take a look back at how our economy has struggled this year, what factors we might expect to impact our marketplace in the future, and what the uncertainty in Europe could mean for us. We also explore the ways in which you can protect and boost your business during these unstable times.



Economic UPDATE

Looking back

A lot has happened in the last six months, and since our last update the UK economy has experienced some major challenges. Most notable was the country's return to recession, after preliminary GDP figures shrank further in the first three months of 2012, and continued to contract by an alarming 0.7 per cent in the second quarter.

On a positive note, inflation has been falling steadily from its peak of 5.2 per cent in September last year and CPI now stands at 2.4 per cent – the lowest it has been since 2009. This 'pleasant surprise' could provide some small respite for household budgets, while the Bank of England continues to extend its quantitative easing programme, which at the end of July stood at £375 billion.

March's Budget saw the Chancellor deliver a series of measures in a bid to placate both households and businesses alike. Most popular measures included a rise in the personal allowance, which will increase from £8,105 this year to £9,205 in April 2013; and an accelerated corporation tax cut to 24 per cent, which was welcomed by businesses.

Finally, we cannot ignore the uncertainty that has been hanging over the Eurozone. The recent news of Germany's rating evidences the severe strain being placed on one of the strongest of the Eurozone members. Will Greece bow out of the Euro? And if it does, what impact will this have on us? What will be the ramifications of Spain's financial dilemma? The next six months will certainly be interesting, as we wait to see what fate awaits the Eurozone.

Looking forward

If we are to take away anything from the last six months then it would be just how slow the road to economic recovery will be, and that we must adjust our medium and long term planning and expectations. As the UK's economy continues to falter, we must stress test our plans against the realistic backdrop of a prolonged recession.

The latest ONS preliminary figures for UK GDP have shocked households and economists alike, as a drop of 0.7 per cent between April and June suggests that the recession is much deeper than originally thought. A recent comparison of UK economic forecasts by HM Treasury put the average GDP growth predictions for 2012 at 0.1 per cent, unlikely given the latest update.

Meanwhile, the Euro crisis remains unpredictable, and while the drop in inflation is expected to continue and ease pressure on households, consumer spending remains stunted.

Preparation is key right now, and while forecasts for the following metrics will undoubtedly change throughout the second half of 2012, here are some key economic indicators, how they are faring now, and common predictions over the next few months.

Key metrics

Jobs and unemployment

2012 was ushered in with unemployment peaking at a 17 year high in the three months leading to December 2011. Figures from the Office for National Statistics (ONS) showed that 8.4 per cent of the population were out of work. Since then, and against predictions, unemployment has gradually slowed with the latest figures for the three months to May indicating it had fallen to 8.1 per cent of the population – 2.58 million people. Youth unemployment, which also peaked last year, similarly fell to just over one million.

Economic update



Gross Domestic Product (GDP)

The Office for Budget Responsibility (OBR) did not predict the technical recession (two consecutive quarters of negative growth). In March, it forecast that GDP would grow sluggishly by 0.8 per cent this year. In reality, four months later, forecasters have been left reeling by the ONS's latest preliminary figures, which reported a shock contraction of 0.7 per cent between April and June. All previous forecasts are now expected to be revised down, as the Government is urged to revise its austerity strategy.

Inflation

Since its record peak of 5.2 per cent in September 2011, inflation has gradually been falling. The Consumer Price Index (CPI) fell to 2.4 per cent in June; an unexpected drop due to a lowering of food and fuel prices and its lowest level since November 2009. However, it still remains above the Bank of England's two per cent target.

Economists speculate that the rate will now fall further as a result of cheaper energy bills this summer. Elsewhere, the ONS is also undertaking a consultation into the creation of a new CPI measure that would include housing costs. The new measure is being proposed to offset criticisms that the current CPI does not take into account costs such as mortgage repayments, which make up 10 per cent of a household's spending.

Interest rates and quantitative easing

The Bank of England's Monetary Policy Committee (MPC) voted to reduce the base rate to a record low of 0.5 per cent in March 2009; and it has remained there ever since. At a recent meeting, the MPC judged that lowering the bank rate would squeeze some lenders' ability to extend credit even further, but that it would keep its position 'under review'. The base rate is expected to remain low until the end of 2013.

In terms of the Bank's quantitative easing (QE) scheme, falling inflation opens up more leeway for it to continue with further monetary stimulus. Since QE was first introduced in March 2009, a total of £375 billion has been injected into the economy – with the last round worth £50 billion implemented in July.

Eurozone update

Last year, problems within the Eurozone continued to weigh on the UK economy. This year, the situation in Greece and beyond continues to create testing conditions. Even the sturdiest economies are being affected as Moody's has warned that Germany, the Netherlands and Luxembourg are in danger of losing their AAA ratings.

Greece continues to struggle after it was granted a second €130 billion bailout in March this year – an original €110 billion was made in May 2010 – to cover the country's debts from years of Government overspending. Recent general elections in the country have failed to fully abate fears that Greece could exit the euro.

Spain is the latest country to be bailed out by the Eurozone – it is estimated they will receive up to €100 billion, although it edges closer to requiring a full-scale rescue as its banks continue to flail. It is the fourth and largest country within the Eurozone to receive help with a debt crisis, and although Britain will not contribute to its bailout, it adds to increasing uncertainty.

Protecting your business

These are just some of the measures you can take to ensure your business is in the best possible position:

Review your business plans

Whether starting out in business, or an established firm, the current climate necessitates reviewing your business plans on a regular basis. Plans you had at the start of the year may no longer be valid and you may be able to take advantage of new allowances and schemes.

Finance

The Bank of England recently reported that the number of small business loans being approved has risen. Businesses can also take advantage of a new appeals process for rejected loan applications. Now could be the time to review and strengthen your application, reapply for finance and boost your business.

Marketing

Business marketing budgets were revised up for the last three quarters to March 2012, proving this is one area businesses

are not willing to cut back on. If a marketing budget isn't an option, you may wish to explore the different and cost effective approaches that digital marketing offers - social media sites to find new customers, and blogs to make your business unique, for instance.



Contact us to find out how we can help you to mitigate damage done to you and your business.

Business opportunities

In addition to protecting your business, the next few months open up some opportunities you may want to take advantage of too:

The Olympics

New marketing tactics, longer opening hours for larger shops on Sundays, increased sales and a boost for staff morale; the Olympics could offer new and exciting business opportunities. Plan how you can use the games to your advantage.

Government schemes

The Government has launched various schemes geared towards SMEs during the last six months, including a £200 million coaching programme addressing issues such as securing finance, ways of spurring innovation, and leadership and management skills. Another has been designed to help aspiring entrepreneurs set up business. Are you or your business eligible for support?

Look for the positives

The recession may encourage you to streamline your business, find ways of reducing costs and utilise your resources more effectively than before, which otherwise may have been overlooked. A downturn may have the advantage of forcing you to take a step back and evaluate your business performance.



We can help you to identify and grasp any opportunities that could help you to prosper over the coming months. Please contact us to find out how.

All figures correct at time of going to press on 25.07.2012.