

One year of Carney and my Spider-Sense is Tingling

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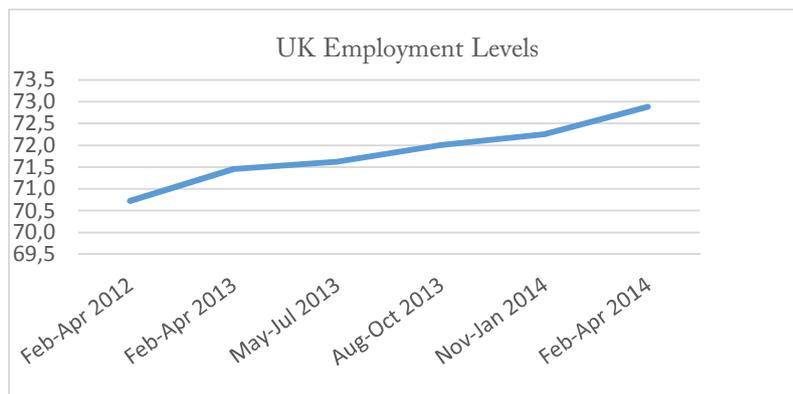
With 1st July being the first anniversary of Mark Carney's tenure as Governor of the Bank of England, now is as good a time as any to take stock of how the UK economy is performing.

A strong-ish quarter

Official Q1 results published in late June showed business investment had grown by 5% compared with 2013 Q4 – this was almost double the estimated result.¹ This is a good sign of course; although the Bank of England had announced in February that it estimated there was between 1% and 1.5% spare capacity in the UK economy. This means that, despite the central bank pouring hot money into circulation, business are not receiving enough investment. So, things could and should be a lot better.

Employment

Employment rates have steadily risen over the last two years, which shows some recovery but it's hardly a massive improvement.



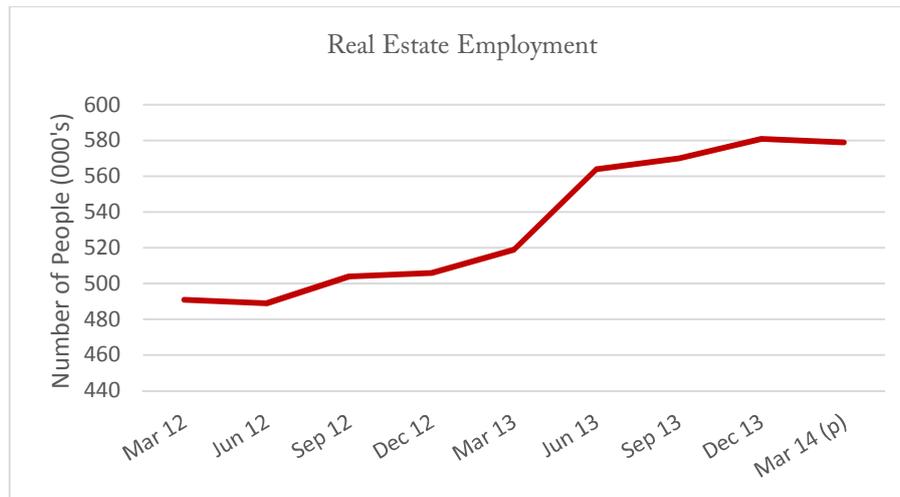
Source: Office for National Statistics

Interestingly, employment in the real estate sector has increased massively, pointing towards a housing bubble. Between Q1 and Q2 2013 alone, there was a 9.9% rise in the number of real estate workers².

¹ Office for National Statistics, <http://www.ons.gov.uk/ons/rel/bus-invest/business-investment/q1-2014-revised-results/stb.html>

² <http://www.ft.com/intl/cms/s/0/866e87c0-1af0-11e3-a605-00144feab7de.html#axzz36Nx2bapT>

This was not just a one-off either, nearly 100,000 people more now work in real estate than in March two years ago.



Source: Office for National Statistics

Debt

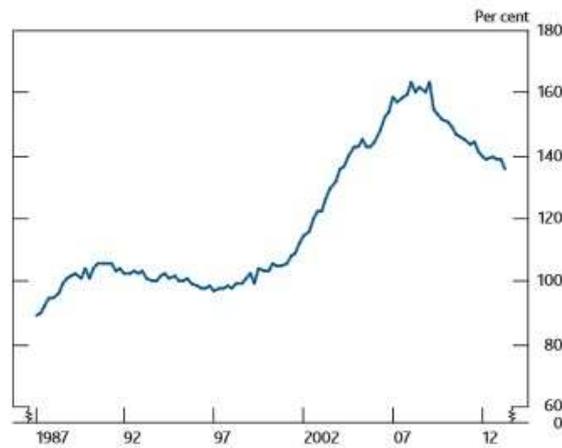
The above statistics point to a concern which Sir Jon Cunliffe, the Deputy Governor of the Bank of England raised at the end of June: that household debt could be set to rise again, as house prices surge.³ Sir Jon expressed his concern that there was a British tendency to buy houses as soon as people feel their income is increasing, or indeed feel there is a chance it will increase: supply, therefore, cannot keep up with demand.

The last thing that is needed is another spike in household debt. As the chart below shows⁴, the UK economy hasn't yet recovered properly after the last bonanza which heavily implicated the country in the global financial crisis.

³ <http://www.telegraph.co.uk/finance/bank-of-england/10931956/Jon-Cunliffe-UK-property-obsession-threatens-to-push-up-household-debt-pile.html>

⁴ <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130406.pdf>

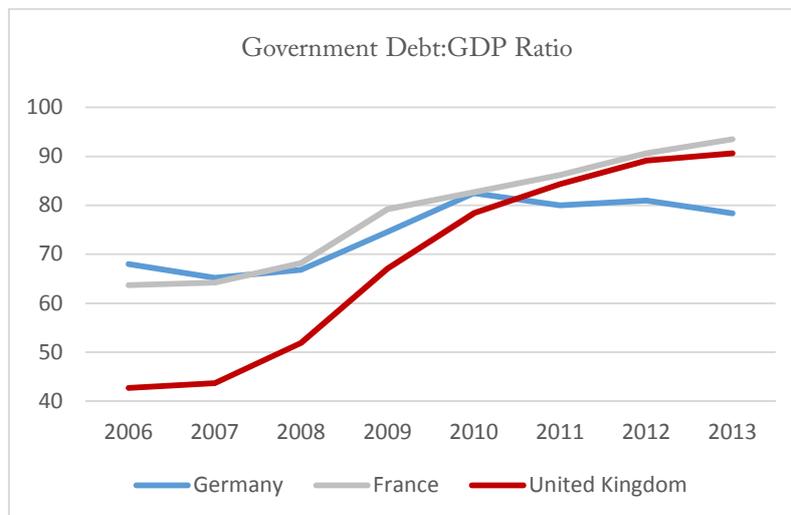
Chart 1 Household debt to income ratio^(a)



Sources: ONS and Bank calculations.

(a) Total financial liabilities as a percentage of annualised total household resources.

Whilst household debt remains a major issue in the UK, public debt levels continue to rise, albeit at a decreasing rate. In spite of government cut backs, tax hauls and other attempts to raise funds, public debt has been around 90% of GDP since 2012 – more than double pre-GFC levels.



Source: Eurostat

Carney and Osborne

These results are not outstanding, to say the least, despite Mark Carney's positive declarations.⁵ He was even accused by Treasury Select Committee member John Mann as presenting statistics in a "rosier picture" than the reality and being too close to Chancellor of the Exchequer George Osborne.⁶ This is a topic that Steve Sedgwick

⁵ <http://www.standard.co.uk/news/uk/economic-recovery-has-taken-hold-says-bank-of-england-governor-mark-carney-8936818.html>

⁶ http://www.huffingtonpost.co.uk/2013/11/26/mark-carney-george-osborne_n_4342848.html

and I discussed with Robin Walker, MP for Worcester and BIS committee member on Squawk Box on July 4th – came over as a thoroughly decent young man (not the case with most politicians and certainly not the case with most of the current UK government) but sadly did little to allay my fears that if Napoleon were around today he'd be tempted to refer dismissively to a 'nation of estate agents'⁷

John Mann's comments clearly annoyed Carney (the truth hurts or at least stings?) but it is apparent that he and Osborne push the same excessively positive spin on UK economic results – working in tandem as two of Spiderman's great nemeses, Carnage and Osborn.

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⁷ <http://video.cnn.com/gallery/?video=3000289866>