Economic update

We take a close look at the UK's economic performance, and how it might impact our pensions, savings and investments.

Last month's Budget highlighted just how stunted our economic growth remains, as GDP forecasts were downgraded once again. On a positive note, both the Organisation for Economic Co-operation and Development (OECD) and British Chambers of Commerce (BCC) believe we should manage to avoid an official triple-dip recession in the first quarter of 2013.

Nevertheless, spring snow showers are unlikely to have done the economy any favours, as reports of empty shopping malls and cancelled holidays resonate across the country.

Key economic indicators

Here we take a look at a selection of key economic indicators and how they are faring in the year so far:

GDP

After a significant boost from the Olympics, which helped UK GDP grow by 0.9 per cent in the third quarter of 2012, GDP contracted by 0.3 per cent in the last quarter of 2012 in line with previous estimates.

However, both the BCC and OECD believe that the UK economy is now growing, particularly in the service sector. John Longworth, director general of the BCC, said: "Although the progress seen in the first quarter of this year is modest, it is progress nonetheless."

Inflation

The rate of Consumer Price Index (CPI) inflation was recorded at 2.8 per cent in February, creeping up from 2.7 per cent in January and 0.8 per cent above the Bank of England's target of 2 per cent. This rate is expected to remain elevated in the foreseeable future, as it was announced in the Budget that the Bank of England would be given more flexibility in meeting the 2 per cent inflation target.

Monetary policy

The Bank of England base rate has been at a record low of 0.5 per cent for four years now. The March anniversary came and went without much commotion and it is widely expected that the base rate will remain the same throughout 2013 and 2014. Some commentators believe it needs to make a further move downward, but this could hit the profit margins of banks and building societies and restrict lending further than it already is.

Quantitative Easing (QE) remains at £375 billion, although some economists expect this to change in the not too distant future. Three members of the Monetary Policy Committee, including Mervyn King, voted to increase QE in February and March. Howard Archer at Global Insight expects to see £25 billion injected in the second quarter of 2013 and again shortly after Mark Carney takes over as Governor of the Bank of England in July.

Unemployment

UK unemployment rose by 7,000 to 2.52 million between November and January, the first increase since early last year. Despite this rise, the overall figure held at 7.8 per cent.

For those in employment, average weekly earnings excluding bonus payments rose by 1.2 per cent between November and January year on year, lower than the 1.3 per cent reported for October to December 2012 and much lower than the CPI rate of inflation.

Exports

According to the British Chamber of Commerce, the export balances for both manufacturing and services improved in quarter one this year. In fact, service balances are now at historically high levels and manufacturing at its best since quarter two 2012.

Retail sales

The latest retail sales figures are also positive, as both the amount spent and the quantity bought increased by 2.6 per cent year on year in February 2013. Food stores saw a 0.7 per cent increase in money spent year on year, while textile, clothing and footwear stores saw a three per cent increase in the quantity sold.

The Eurozone

The UK remains vulnerable to shake-ups in the Eurozone. The latest events in Cyprus, while less of a threat to the UK than other larger economies, has served as a cold reminder of the fragile state of the Eurozone. Unemployment in the Eurozone has also hit a record high of 12 per cent.

What about the impact on pensions, savings and investments?

A fragile, sluggish economy will undoubtedly have some impact on your savings and investment strategy and should be kept in mind, but it is still as important as ever to save and invest for your goals and your future.

Savings and investments

Low interest rates are normally unavoidable consequence of a historically low base rate. Couple this with above target inflation and it means that you need to seek out the best interest rates to maximise the return on your cash savings.

The best rates are normally available on savings accounts that require you to lock your money away for a set period, sometimes as long as five years, so it is important to make sure you are aware of this. Even so, there are few rates available that outstrip the current rate of inflation.

In terms of investments, a strategy tailored to your circumstances and attitude to risk remains the priority. The yields on gilts and corporate bonds may not be what they once were but there are many factors to consider when it comes to your investment strategy, most importantly your attitude to risk and period for investment.

Pensions

The faltering economy has not done any favours for pension savings, whether you are in the public or private sector, even though stock markets have shown a remarkable recovery. However, the fact remains that it is now more important than ever to ensure you are on track with your pension investments.

Quantitative easing has been accused of damaging both final salary pensions and annuity rates, and returns on any pension investments will remain stunted in the short-term. Continuing to invest and reviewing your investment level is vital.

Please contact us for professional advice on your savings.

We can help you to ensure you are on track for a comfortable retirement. Contact us to find out more.