Insights, Tacit Thought | Weekly Investment Insights

The State We are In

Published on: 31 May, 2019 | Author: Investment Team

One of the interesting aspects of the Brexit wars is that the longer it has gone on, the further removed it has become from the underlying economy. Brexit, seemingly, has become an end in itself but the fact remains that it is the economy that underpins our way of life. So what is going on?

We are currently preparing for our quarterly investment conference. We begin by gathering the data that informs our views. One of the key sources, amongst others, is the Office of National Statistics. This body collates all the key numbers for the UK regarding production, inflation, exports and many other factors. As a public body, the ONS makes this data freely available.

Reviewing the data it is notable that despite Parliament's total absorption in the EU, the British economy has been slowly but surely gathering steam.

The quarter to end September 2018 (the last for which data is available) was the 23rd quarter of growth since 2013. Industrial Production and Construction output are trending up although growth in Services has declined somewhat. Notably, Services, the bulk of UK economic output, were excluded from the recent but failed Withdrawal Agreement.

Retail sales are also trending higher and following some years of decline, UK Fixed Capital Formation turned positive in the third quarter of 2018 having declined fairly consistently since the peak in 2012. This is a worry for the British economy as weak investment will further corrode Britain's already poor productivity record.

On the employment front, UK employment has never been higher and wage growth is just beginning to trend higher generating growth in real disposable incomes.

One factor leaps out of the ONS pages which has become the British "get out of jail" free card. That is the external value of sterling. Britain is not a member of the Euro (which is itself an interesting story) and the pound's devaluation has clearly taken the economic strain of the last few years. The pound is worth 20% less today than it was in 2008 and 2016. Devaluation helps exports and raises the value of British owned overseas assets.

The other principal variable affected by the EU debate has been UK property. House price inflation is now close to zero in aggregate and negative in some areas.

For investors, it is worth remembering that the first quarter of 2019 was a record year for UK dividends, £19.7bn was paid out with shares yielding an average of 4.6% (according to Sharecast.com and Link Asset Services).

Looking to the future, undoubtedly trade is key. The UK suffers from an expanding and chronic deficit in manufactured goods and recent data points to a worrying decline in our surplus in Services. Britain's capacity to sell Services abroad is crucial to our well-being not to mention the balance of payments.

To date, the British economy has weathered the uncertainty caused by the Brexit wars surprisingly well. Ironically, the devaluation of sterling has rewarded investors who hold geographically diverse income streams.

We mentioned Thucydides Trap last week but Thucydides has a further question to ask. What is the difference between a democrat and a demagogue? The answer to that question will determine the future of the British economy.

Important Information: Any views, insights, or commentary are for general information only, do not constitute personal investment advice or research, and are intended for UK residents. They may not be appropriate in all jurisdictions. While sourced from information we believe to be reliable, we make no guarantee as to accuracy or completeness. Past performance is not a guide to future results, and the value of investments can go down as well as up.

Regulatory Disclaimer: Tacit Investment Management is the trading name of TIML Limited (No. 9228395), part of Tacit Holdings Limited (No. 10611211). Both companies are incorporated in England and Wales, with the registered office at 14 Hanover Square, London W1S 1HN. TIML Limited is authorised and regulated by the Financial Conduct Authority (FCA ref. 670184) and approves and issues this communication under Section 21 of the Financial Services and Markets Act 2000. Please note, tax and estate planning services are not regulated by the FCA.