Parkgate Financial Solutions
PFS ADVISER

Parkgate Financial Solutions Summer 2011 Edition

Welcome to the Summer edition of the Parkgate Financial Solutions newsletter. We have deliberately delayed the spring edition due to industry and economic events that we feel have helped us put together a more interesting picture of topics covered. We do hope that you find these topics useful and encouraging. We look forward to seeing you at our next review, however, if this newsletter provokes any immediate thoughts that you would like to discuss, please call us on 01925-600665, we would be glad to respond.

Losing out to inflation

Low interest rates are great news for borrowers but for savers, they can have a devastating effect. With inflation currently running far in excess of base rates, even though the value of your capital may be safe, you need to keep a close eye on the interest rates you are earning to stop, or at least limit the rate at which the buying power of your money is being eroded.

Nowhere is this more apparent than with Cash ISAs. In a recent survey for watchdog, Consumer Focus, over 80% of Cash ISA holders were found to be earning **less than just 0.5%** a year on their savings. In most cases, the attractive introductory rates which lured savers in had come to and end and been replaced by very low "standard" rates. In some cases this change had even gone unnoticed. Whilst it is true that, whatever the conditions in the market, most people should hold at least some money in an easy access, readily available deposit account, simply to make sure they can cover unforeseen emergencies and short term needs, any saver with longer term plans should be alarmed by findings like this. At the very least, you should do a review of the market and see if you can find an account paying more.

In response to the findings, Consumer Focus suggested that: "...customers who have not switched their [ISA] savings may be losing one to two per cent in interest. In total this could amount to as much as £1.5 billion to £3.0 billion per year… With those potential gains at stake, it is certainly worth shopping around.

Earthly

'Commodities' is the term used to refer to a collection of different materials, from agricultural products and energy through to naturally resourced precious metals and minerals. During the mid nineties, prices were very strong, boosted by growing demand from the likes of India and China. As the recession hit, demand fell off a little, as did prices, but, as the current oil price illustrates, the long term trend still appears to be upwards as worries about the level of demand vs diminishing supply pushes prices up further. Direct investment, however, is difficult; taking delivery of oil barrels is not something your everyday investor can accomodate. However, there are plenty of pooled fund options now available if you want some exposure in your portfolio.

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The Economic Aftershocks

There has been only one story in Japan since the end of February – the earthquake and its aftershocks, both human and economic. Whilst news analysts have contemplated the human devastation, markets have focused their attention on the costs of the disaster, ie: the rebuilding, its effects on economy and the extent to which companies may be affected.

The market's immediate response was to assume the economic impact would be catastrophic. In many ways it was a fair assumption – Japan's economy was already on its knees, with government debt standing at over 200% of GDP (the highest of any developed nation). Economists seriously questioned how a Japanese government in an already weak position could support the colossal rebuilding costs required. However, towards the end of the month, more sanguine assessments emerged. Goldman Sachs estimated the impact on real GDP could be to reduce it by 0.5% or more in 2011. The group thinks the final figures will depend on how long the power outages continue. If they are all but over by the end of April, the impact will be far lower than if they continue into June or July.

Certainly, the majority of economists expect what impact there is to be short and sharp. A number have even suggested that, once the immediate difficulties are dealt with, the rebuilding of infrastructure in Japan may provide a much needed boost to the economy.

Some better news on the economy

Having contracted by 0.5% during the final three months of 2010, the UK economy showed more encouraging signs during the first quarter of 2011, expanding by 0.5%.

According to the Office for National Statistics (ONS), the construction sector registered a marked decline of 4.7% during the quarter, having already weakened by 2.3% in the final three months of 2010. However, activity in the UK manufacturing and services sectors picked up. The services sector returned to growth, rising by 0.9% over the quarter and manufacturing grew by 1.1%, providing welcome evidence of an improvement in that sector. According to the CBI's survey of industrial trends, order books at UK manufacturers showed that output has risen over the past three months, indicating that their recovery is "firmly on track." Meanwhile, exports surged during February, boosted by demand from non-EU markets, and narrowing the UK's trade deficit with the rest of the world.

Despite the rise, 0.5% is not enough yet to signify anything but sluggish growth. This is therefore unlikely to increase pressure on the Bank of England (BoE) to instigate a rise in interest rates - and they were consequently again left on hold in early May. Rates have remained unchanged since March 2009 and, although inflationary pressures eased slightly during March, the rate of inflation remains relatively high at 4%. Indeed, the BoE believes it could rise as high as 5% this year before subsiding back towards its 2% target level by the end of 2012.

An interesting start

When your new born child finally arrives, the very last thing you are probably thinking is how much they are going to cost you. However, according to the Liverpool Victoria Cost of a Child survey (2011), you are looking at a 21 year bill of over £210,000. One way to deflect some of the larger future commitments you might find yourself facing is to consider a regular savings arrangement. In many cases, at least to start with, deposit accounts are the first port of call and most banks even offer child-specific accounts. The benefit of these is they can allow irregular payments of spare money and you always know that your capital value is safe. However, the return you get is purely interest so you might want to seek out the highest rate you can find.